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Preliminary note

When I could visit Rittershausen in the eighties, I was allowed to copy some of his essays and manuscripts. Professor Rittershausen always tried to spread his libertarian ideas as wide as possible, in German and other languages. He asked me to go on publishing and translating his writings - even without payment. Many of his ideas are still very important for our time. Among these writings, there were several drafts, versions 1-5 from 1930 to 1952 of a manuscript "Geldtheorie" (Monetary Theory), together with notes and other materials relating to it.

There was a recopy of approximately 80 pages of the last version. I read it at that time and was very much impressed. But unfortunately my copy got lost in the mail. The last version can now only be found among manuscripts and papers spread on 20 meters of bookshelves, not yet indexed, in the archives of Cologne University.

Thus, presently, nothing else could be done than trying to reconstruct this version. However, in the briefcase of the 5.version still e.g. pages 40-51 are missing; many handwritten notes are on bad photocopies and sometimes illegible. And often, it was uncertain where they should be placed. Prof. Rittershausen had changed the structure and page numbering many times. So my reconstruction efforts were not easy.

I add some earlier handwritten notes, often read from grey on grey photocopies. Unfortunately, I cannot guarantee that I always correctly deciphered his handwriting, that contained abbreviations in many cases.

Rittershausen had moved so many times that he had probably lost several writings, too.

After the recopy had been finished, Rittershausen and his assistants probably did not worry any longer to order the previous versions. They could even have thrown away some of it.

If I remember right, clearing as the basis of all means of payment and payment methods was emphasized in the recopy still more than in the version available here. Please also see the notes added in 1954, 1956 and 1972, appended in this reconstructed manuscript (presently only

available in the German version). His opinion about monetary theory had kept changing over time.

John Zube

Definitions

Money

is set-off (clearing). It can appear in form of clearable claims or certifications of such claims.

The value standard of a currency

is the means of price expression; it is either imposable or accepted out of self-interest by the members of a payment community and it is highly estimated as a hoarding means.

Introduction

We see of late international efforts to give up an independent monetary theory as a subject of scientific research and to integrate it into the general economic theory. Obviously, this can only be done by treating what is merely a single teaching, e.g. the theory of the expansive and contractive effects, which applies only to the special case of fixed rate (legal tender or forced currency) money, as we will call it here. Thereby, all other historically and presently so important problems would be disregarded and would be withdrawn from research e.g. the peculiar agio-phenomena on the rare metal coin markets, the changing gold price development in free or half-free markets, the famine in India due to delivery strikes of Indian farmers, the Maria Theresia Thaler as an oriental coin of the present, the various disagio (discount) phenomena of most currencies of the present, the question of credit restrictions etc ... Therefore, one cannot consent to this proposition.

Apart from that, it must be admitted that the world's monetary theory finds itself in a lamentable condition. The restriction of money's definition to physical objects, the non-consideration of book money, the so far persistent irresolvability of the problems money supply and circulation speed, just to mention some questions, has limited the theory's achievements very much and has exposed it to severe criticism. While monetary theory had reached some kind of developmental climax at the time of Knapp, Knapp himself, nevertheless, through his confusion of terms, has become one of the originators of its decline. By treating private monetary phenomena like the private banknote under the title "State Theory" he overshadows his most valuable research results. The task consists in carefully preserving his valuable contributions.

Above all, it is necessary to prove that behind money, there hides the central phenomenon, which cannot be captured quantitatively, but merely resembles, to use a parable, the electrical current or the process of legal thinking. While the quantitative and physical arrangements of this clearing principle in today's historical money coins, money certificates, bank notes, etc. will have to be exactly observed, they will have to be regarded as physical only conditionally and indirectly.

The aspect of the value standard or the value unit, in whose neighborhood we find hoarding and accumulation, will have to keep completely separate the phenomena of transfer processes.

Apart of both these two, the rate phenomena of money and those of its issue and reflux will take up much space in our examinations.

Already 20 years ago, I published substantial parts of my theory. The years after 1933 made me stay mum and forced me to change over to price theory and the science of finance. However, in the meantime, I always had the impression that my cognitions, based on broad experiences in banking practice as accounting general and aided by intensive theoretical research, should not be withheld from the public, even if, once again, they are released too early, because these thoughts can, perhaps, become important later on.

In this I have much to thank for my friend Ulrich of Beckerath, Berlin, as well as Mr. Henry Meulen, London.

Rittershausen

Chapter 1: The functions of money

§ 1. The function of payment and clearing

One tends to assume that a certain uniform 'money supply' (quantity of money or money circulation) corresponds to the 'goods' supply (quantity of goods and services etc. that are ready for sale), and this conception is usually refined by the terms 'velocity of money' and, on the goods side, 'sales volume'. This concept of money supply (quantity of money or money circulation) has obviously been inferred from the historical-sociological form of money, i.e. coins and notes, whose quantity was measurable. However, historical-sociological statements can state nothing that is certain about the theory. Money and banking have taken a completely different development in the meantime.

We do not want to speak here about the fact, that through enterprise money and clearing, by their various kinds, offer a rich variety, so that the hypothesis of a uniform quantity of money amounts to the use of a too poorly characterized theoretical instrument. Here we will deal at first with the quantitative considerations.

There are new phenomena, which are not compatible with this conception. The phenomenon of cheque money (giro account money, current account money, non-cash payment systems) has to be dealt with, without throwing the significant truths of the older monetary theory overboard. The concept of account money (deposit money or deposit accounts), with which one wanted to express the newer developments, still includes a remnant of notions of materialness and of the participation of this kind of money in the hoarding process, since wealth is invested in these accounts. The quantitative money concept, however, can no longer cope with the daily practiced procedure of skontration (clearing, settlement, offsetting, balancing, are much more common terms; even in German this term is only used by professionals, like Rittershausen), in which mutual claims are simply cleared, i.e. cancelled or subtracted from each other, neither with the retrogressive transfer, that would not move a claim from the debtor to the creditor, but rather a debt, thus something negative, from the creditor to the debtor.

Generally, one can comprehend the total payment transactions of a country in such a way that one divides the entire population into two groups: the creditors and the debtors, according to the two-sidedness of all debt/credit obligations & entitlements. Since nearly everyone is both creditor and debtor as well, almost everyone will have to send a proxy into the other group. Claims and debts will thus be presented by each group to the other group, and both groups will present exactly the same amount to each other. Since only due claims are applicable, one can all at once have all due or soon due claims and debts expire by simple declaration according to § 387 of the German BGB (Buergerliches Gesetzbuch - civil law book)

on "Aufrechnung" (set-off, clearing, settlement). (1) The money supply would then be zero. Payment in pieces, metallic coins or paper notes would be completely displaced. "Then money would be abolished, because giro payments (account transfers, non-cash-payments) use no money!", thus G.F. Knapp continues (3), who raises the same question. He continues to say: "However one need not be worried. Indeed, money would be abolished, however, what remains would be payment. Our economical condition does not depend upon money (in the meaning of cash money) although we like to term it a monetary economy;

(1) Civil law book (German Civil Law, "Buergerliches Gesetzbuch: BGB.):

Set-off (Clearing, Settlement)

§ 387

When two persons owe services of similar matter to each other, then each party can set off his claim against the claim of the other party, as soon as he can claim the service due to him and as soon as he can provide the service he is obliged to deliver.

§ 388

Set-off takes place via declaration towards the other party. The declaration is ineffective, if given with preconditions or a termination clause.

§ 389

Set-off has the effect that the claims, as far as they align with each other, become extinct by that point in time, at which they meet with each other as suitable for clearing

§ 391

Set-off is not excluded by the fact that there are different locations for service provision or delivery for these claims.

§ 395

Set-off against a claim of the Reich or a Federal State as well as against a claim of a municipality or another local federation is permissible only if the service has to be delivered to the same payment office with which the claim of the one who is clearing, has to settle.

The same regulations in foreign law books, (paragraphs in brackets):

Belgium (1289-1299), Bolivia (1297-1309), Brazil (1009-1024), Chile (1655-1664), China (334-342), Columbia (1714-1723), Costa Rica (806-813), France (1289-1299), Guatemala (2326-2336), Honduras (1473 1480), Italy (1285-1295), Japan (505-512), Lithuania, Latvia, Estonia (private law 3545-3564), Mexico (2185-2188), the Netherlands (1461-1471), Austria (1438-1442), Panama (1081-1088), Peru (2252-2263), Portugal (765-777), Rumania (1143 53), Russia (129 b), San Salvador (1525-1534), Switzerland (120-126), Spain (1195-1202), Uruguay (1497-1514), Venezuela (1353-1363). In England and in the USA there is only "set off" and "clearing".

it merely seems to depend on it, because we almost always do carry out our payments by the delivery of money. This is, however, merely a special case. What is essential is the obligation denominated in standard of value units (1): This obligation, however would not be likewise abolished with the abolition of physically expressed money but would be retained and handled in another way, a non-cash way, or value accounting and transfer and settlement or clearing way."(3)

Knapp thus rightly declares that as a result of the transition of the money supply towards zero (and the velocity of circulation towards infinite), there would not arise even the smallest disturbances in economic life. A part of the population, those with particularly rich, fast and massive development of claims and debts, namely those people, who frequent or utilize stock exchanges, have known already for generations similar arrangements, the so called "ultimo liquidation". Naturally, these settlement practices have no unfavorable influence on business. On the contrary, they were rather created because of their favorable impact on the economy. One day perhaps their exemplariness will be recognized and extended to the entire business economy, if they are not yet introduced there. There will be no disturbance of business, because the primary function of money is solution, i.e. the dissolution via mutual cancellation of due commitments. It is clearing that can accomplish this solution in the fastest and most effective way. In contrast to this stands the "control" or "restriction" of the alleged money circulation much favored today. These are not facilitating frequent dissolutions of debt commitments but make them more difficult. According to the sentence, stressed by me through underlining, the basic procedure of today's money and banking practice is the generation of obligations, created by business transactions and expressed in units of value, and their continuous elimination by clearing. This process is neither a question of a "quantity" of money, which emerges or which is created, or which might possibly just be needed, nor a question of a "quantity" of obligations, but it is a question of legal & juridical processes accompanying economic phenomena, which by themselves are not comprehensible in terms of quantities.

(1) Underlining by the author.

(3) (S. 2); State Theory of Money, 1909 in German, translated much later and incompletely into English, par. 8a.

The economic processes, with which we are concerned here, are, on the one side, those, which make up the main content of the economy: production, services, trade, credit, work and consumption. To these must be added taxes and other enforced payments, gifts and other voluntary services, inheritances, procedures within families and enterprises and many special cases. The respective legal occurrences correspond to them:

The generation of obligations from sales contracts, disbursements of loan values and fulfillment of loan contracts, carrying out work contracts etc.

Here it is important that everywhere the quantitative measurability of some physical monetary matter is missing. Further, that the variety of the generation of economic processes does not align with the possibilities of the generation of legal processes. Therefore, it is quite permissible to sum up, statistically and quantitatively, the goods turnovers (goods sales) of a certain period, as it is done for instance for the value added tax statistics. It is, however, well known, that the resulting payment liabilities need not at all be equal with the total sum of the turnovers, because certain commercial stages can be skipped. Likewise, one can add the claims of one observation period that arise constantly for the most diverse economic reasons, but, here, too, one will reach a quite different sum than the one resulting from that statistics of turnover sales or from that which a quantity-theoretician would like. For example, the turnovers of the money market are not included in the turnovers of goods sales. The sum of claims is deceptive, too: It contains the enormous sum of money market claims. Furthermore, the partly immediate, partly subsequent set-off procedures are not subtracted, which already settle a part of the claims right in the beginning. E.g., the internal clearing accounting of industrial trusts, or those, which by clearing prematurely terminate the existence of claims in the sense of monetary quantities. A statistics of the sum of payments, including the sum of clearings, could be set up. However one of the "money supply" is not possible, i.e. of the physical money, including account assets, without consideration of their use to achieve payments or clearings. This sum would include many claims, which their owner would not at all want to settle, a lot of "inactive" money, which is no "money" at all, it thus would miss the point of the problem of the quantity of the money supply. All previous attempts to define the "active" quantity of money had to fail, because the

real clearing process is carried out in time zero, so that all "money", in the sense of claims, rests continuously, although with changing owners.

"Rising money supply" frequently means lack of debt-dissolving, thus insufficient payments, sinking money supply may mean a good liquidation of debt relationships, i.e. more payments. By adherence to the means of an outdated theory, it is not possible to escape the labyrinth of the scientifically inadmissible term 'money supply'.

With acknowledgement of the possibility of the money supply approaching zero, quantitative conceptions of money must be abandoned. The improved Quantity Theory becomes not refuted thereby but confirmed: the velocity of money becomes infinite. Thus quantitative discussions for purposes of bank practice and practical economic policy do not become false, but illusory, and the quantity formula becomes limited to the minimum border area, for which alone it seemed to supply results, namely for the world of the 18th or 19th century, in which one could, perhaps, still observe a relevant "money supply". Indeed, money supply is today still of importance, even in the context of the clearing theory, but only secondarily, only with reservations, e.g. with regard to note issues. Furthermore, the quantity of money in circulation, in present practice, is not yet = zero, but so many compensatory influences are effective so that any consideration of the quantity of money will provide false results.

If the basic process, which monetary theory has to discuss, is the dissolution of emerged or, if you will, "created" claims and obligations, denominated in units of value, then the prevailing theory has still to be discussed, which sees the "creation" of money as a privilege of the issuing banks on the one hand, and on the other as kind of an impermissible passion of the business banks. Arbitrarily and without a word of justification, one disregards the whole abundance of the economic and social life, from which arise every hour and every minute, all kinds of monetary claims and obligations just like nature, for instance, lets vegetation grow. One ignores that the banks only take over the claims and obligations that already had originated before in the business world and in private circles, just like a wholesaler would buy up the production of the goods of large and small firms. The banks are discounting bills, which, after sales of the respective commodities, were drawn before by the supplier on the buyer. They merely grant bank overdraft credit, thus buy receivables, which originated before through previous goods sales of

an industrial company. They merely execute transfers, or they do take over obligations, which already existed, and which, for off-setting or debiting, they confront with the obligations of their other customers. That wrong theory of money creation through central banks with which we will concern ourselves later, is being developed more and more to a theory of an exclusive "creation" of money by the central banks. For the "money supply", one argues, could by its increase bring about inflation, that is a destruction of the economy. In order to eliminate this danger, one single institution exclusively, they say, would need to control the generation of the "money supply" (to control the quantity of money or money circulation), because, according to these teachings, it would be as dangerous as dynamite. Consequently, private banks, they say, should be denied any option to "create" money. This is called the demand for the nationalization of deposit money. This, by the way, is a demand, which was first raised in the communist manifesto of Karl Marx (1848) as demand No. 5. This is realized only in today's Russia by extremely strict penalty clauses not only against the banks, but against the entire population. Fortunately, it was not yet noticed that the main part of those monetary claims does neither arise at the central banks nor at business banks, but in private enterprises and families. The prohibition of private generation of monetary claims or the so called centralization of money "creation" in one note-issuing bank would of course mean the end of any liberal economic constitution, an issue we will address later.

Money, however, is not dealing with the creation of claims, but with a kind of opposite process, i.e. exclusively with the resolution of previously arisen claims denominated in value standard terms. Regularly, this resolution can be achieved through the claim's fulfillment by way of payment or clearing. Besides these two options one has also to take into consideration their finalization through non-payment, bankruptcy, composition, the statute of limitations, devaluation, expropriation and other forms of losses. Monetary economy deals exclusively with the regular fulfillment through payment or clearing.

This is split into different methods: Transfer, commercial bill payment, cheque payment, skontration (clearing), and retrogressive transfer (e.g. of an IOU). Transfers can be and mostly are included into the accounting practice of skontration (clearing). In particular, the process of skontration consists predominantly of the systematic

matching of opposite and due claims and their simultaneous annihilation on both sides, thus offset (or clearing or settlement or balancing). In principle, this process is independent of the size of the existing assets of the participants. It can no longer be understood as the movement of some "quantity", of some money circulation or of some account credit.

All "payment processes", from gold coin circulation, to banknotes, on up to bank deposits (non-cash payment using "checkbook money"), all these are merely primitive substitutes for clearing. All theories that do not accept clearing or "offset" as the primary feature in payment transactions do inevitably lead one to accept Gesell's idea of intentionally depreciated or demurrage money. Since increases in the quantity of money are precluded, advocates of these theories must seek to increase its velocity of circulation.

Clearing is the all embracing fundamental principle of the first money function, which we consider here, and which is generally called the "payment function". (1) This term "payment" should actually remain; although it contains a logical unevenness, which we must point out:

In the term "payment" one has to criticize that: in the history of law, "payment", just like the respective synonyms of other highly developed languages, means counting-up physical money pieces, coins or notes. In German: payment (Zahlung) = Zählung = counting, lat. enumeratio. Clearing, however, in German law, is treated in a completely different chapter of the civil law book. It was further developed there particularly with help of the development of contract law, since there was freedom of contract, as well as by its cheque law. The clearing houses that were established in the previous Reichsbank, respectively in today's federal states' central banks, in England in the Bank of England and correspondingly in almost all countries of the world, are based on private agreements of the participating banks. Usually they are private associations, which give themselves statutes and which regulate clearing according to their statutes' provisions. In the English language the process is called clearing, still more however "set off". Neither considerations from the history of law, nor an investigation of the prevailing language usage can come to the conclusion that such processes of clearing are generally regarded as "payments". Thus we consider it more correct to speak of a clearing function of money instead of a payment function, as soon as we transform the notion of money from physical forms into non-physical forms.

(1) Further money functions are the accumulation (hoarding) function and the price formation function.

Thus we see clearing to be the higher concept. Even the much-used term abstractness meets logical doubts, since in logic, by an abstract term one does not understand a term without any concrete characteristics, but a term with which these characteristics are thought to be latently combined. Clearing is a mathematically-organizational process; one could also say a legal and organizational process.

In the last decades, the concept of money went through a crucial transformation; it has gone into a crisis, from which the new concept has not yet come out quite clearly. The world's financial crisis is interconnected with a crisis of the money concept and with a crisis of monetary theory.

Since the times of classical Greece money was thought to be physical coins. Around the turn of the century, Knapp and other researchers drew the distinction between **valutary money** (German: valutarisch) (i.e. => legal tender standard money) and **accessory money**: **Valutary** (forced and exclusive or monopolized, unified and centralized) **money** is not only means of payment, but also represents the standard unit.

In contrast to that, **accessory** (optional, competitive, private, refusable, discountable) **money** is only means of payment, but it is never the value standard unit. Therefore valutary money has to be always accepted at its nominal value and is not subject to a market rate, while accessory money is subject to a market rate.

Valutary money, according to Knapp, must be accepted at its nominal value, i.e., it is not subject to free market rating, while accessory money is subject to it.

The valutary money must be accepted in general circulation at its nominal value, it is subject to legalized compulsory acceptance, while accessory money does not have to be accepted by anybody, except by its issuer, when the debtor has to make payments to him.

Since Knapp includes paper money equipped with compulsory acceptance (legal tender) in the term valutary money, here, for the first time, paper money becomes money in its main sense. Therefore accessory paper money gets the name "secondary money".

By the title of his book "State Theory Of Money", which is obviously a wrong title, since gas works or buildings can be nationalized, however a theory cannot, George Friedrich Knapp has caused far reaching errors concerning the omnipotence of the state in money affairs among all those people, who did not read the further remarks of his book. The fact that Knapp, in reality, was rather a representative of a non-statist monetary theory follows from the probably most

important chapter of his work, § 8 b, dealing with giro payments. After he justified the extension of the term money to valutory paper money, he explains in respect of giro payment:

"The term payment, until now quite bound to delivery of pieces of money, must thus be extended again, if we want to do justice to giro payment."

He then comes to speak about the details of the clearing bank privately established by Hamburg merchants in 1619 and states that the merchants participating in this bank were members of a private payment community, after, in his initial remarks, he had only mentioned the state in the context of a payment community. Now he goes even beyond that. He declares that the state can create a currency, not because it is the state, thus having the sovereignty, but instead, because it is a payment community:

"The fact that in the Hamburg clearing bank a standard unit of value, the Mark Banco, has been independently created, without connection to the unit of value of any national money, is a particularly instructive aspect: Any payment community can create a unit of value.

The state can do this, because it is a payment community, not because it is the state.

The state is just the most common, and oldest payment community, but it is not the only one."

And then he gets to the point that will particularly interest us here: the concept of payment:

"Seen from the view of giro transactions (clearing), we comprehend that payment exists without transfer of material pieces. Thus we see ourselves forced to define the concept of payment in a different way than it was so far. If there is to be a single and uniform understanding of the term of "payment", one which encompasses payment in pieces as well as giro payment (clearing, offset, balancing), then transfer of material things must not be a substantial requirement of payment. The essential characteristic of all payment can thus be found only in giro payments, it must, however, also be provable as hidden even in specie payments. We want to try to define the general concept of payment in the following way:"

He continues:

"Payment is a process, which, in every case, presupposes a community; whether this community is the state, or the clientele of a bank or any payment network, is a subordinated question; the payment community could even extend beyond the state, e.g. in auto-metallism (the exclusively circulating currency in form of gold or silver coins - the author), a payment community consisting of all those (citizens of the different nations - the author), who commit themselves to use silver, ore or gold as their exchange medium.

However, as soon as autometallism is overcome, the payment community must have a regiminal (administrative - the author) guidance: there must be powers, which legally and juridically regulate the kinds and processes of payment. Each of the payment communities then has a central point, from which it is led: In the case of state money it is government authority, in the case of private payments it is, for example, a bank. Conceding all this, a view of a more comprehensive definition of payment will result: It is not physical delivery of pieces that is required; a juridical transfer of counter-claims suffices, one denominated in value units, and these are counter-claims which are directed to the particular central office. Such transfers can come about by physical delivery of chartal pieces (charta = card = certificate or note - the author), thus of money; however they do not have to, since in giro payments there is no physical delivery of pieces; the transfer takes place by bookkeeping instead ... "

"... at the same time, thereby the term means of payment is extended; pensatory (pensare, lat., to weigh) (paying in precious metals by weight - the author) and chartal (paper - the author) means of payment are already known to us. But now and in addition enters, - if this expression is permitted - the giro or clearing (offset, balancing) means of payment. All three kinds allow the transfer of claims directed to a central office, but only the first two carry out this transfer through physical delivery of objects. The third kind does not use physical transfer any more, but only bookkeeping-transfer."

Knapp now gets into difficulties with valutary coins, e.g. gold coins, and valutary paper money (both called by him: definitive money). Holders of definitive money, just like owners of coined money, do not have claims. Thus he expressed his Theory Of The Contingent Claim:

"However, the term claim can be extended, and we have already done that tacitly. There are also claims on the central office, which emerge only eventually; merely once certain conditions are fulfilled; i.e. only when a debt is due to the central office. For the holder, any definitive means of payment constitutes an eventually emerging claim on the central office. He has, at the moment, when the central office raises a claim against him - neither before nor afterwards - a counter claim which he shows by the handing over of the definitive means of payment and uses for repayment.

The concept of a mere eventual counterclaim is missing in our jurisprudence, while the term absolute counterclaim is completely common.

Every lawyer knows that claims are effaceable through compensation; here he thinks of absolute counter-claims, that the debtor uses for clearing (set-off, balancing, settlement), instead of resorting to physical means of payment."

By means of the juridical hypothesis of the contingent claim Knapp can understand gold coins and valutory paper money as mere claims, too, and can include them in his comprehensive theory of clearing, although his attention was not called to the set-off regulations in the world's civil law books.

Now he is able to define the term 'means of payment' (in our comprehensive sense of clearing):

"... in a payment community any transferable disposition of value units is means of payment when the holder can, by transfer to the central office, establish an at least conditional counter-claim to this location."

One should consider: Knapp's actual definition - not of money, but of means of payment - is clearing, entirely and solely. The somewhat striking restriction at the end with the words "an at least conditional" is neither due to paper money, nor to giro money, but, exclusively, to the case of metal coins, which is a case seemingly beyond the general rule, namely that of valutory metallic money. (1) By the theory of contingent claims, this is inserted in the clearing-organisation, which remains solely instead of 'money supply'.

Knapp continues:

"Therefore any material content has disappeared from the term means of payment. Likewise, the concept of a mobile thing is no longer included in it, either, both in the sense of essentiality, so that giro or clearing accounts as well fall among the possible means of payment."

In the sense of his previous remarks, Knapp should have to add that "giro money", as far or because it cannot be generally imposed, i.e., it is not valutary but has only accessory (optional) character, and thus must not at all be called money but merely means of payment.

But we would like to go further on this point: Since Knapp, as a jurist and a scientific economist, has made clearing the central phenomenon in the sphere of money, and since modern language usage designates giro money and the other forms of clearing as money, then only the following two ways

(1) ... and the valutary paper money.

remain: either to confine the money concept to the valutory money, whether it consists of metal or paper, and to give to accessory paper money, token coins and giro money the disqualifying designation "means of payment". Or, alternatively, one has to include all clearing not only in the concept of means of payment, but also in the concept of money. In reality this choice does not exist at all, because in the legal and juridical systems of all developed countries (2) clearing (set-off) is not only defined as a possible form for the liquidation of obligations, but as such a form, which everyone has to accept up to the size of his debts. It does not depend on whether compulsory acceptance at face value (legal tender) is declared in coinage or banking law, or in any other law. In any case, compulsory acceptance exists. Thus clearing (set-off, balancing) is a means of payment, which indeed is not absolutely valutory (imposable upon the creditor), but whose delimitation is certainly only individual and in terms of size. Through this limitation purely by size, as well as through the presence of bank accounts for practically every payee, set-off can normally be regarded as a feature, which moves the means of clearing into such proximity to valutory money, that their difference becomes insignificant. Thus the largest part of clearing would be equipped with a quasi valutory character. Facing this fact, it appears today no longer justifiable to confine the concept of money to money pieces and bank notes of valutory character, when the Giro payments in turnovers, perhaps 10 to 20 times larger in volume, by a substitute mechanism are likewise approximately valutory. Thus we come to the conclusion that, going beyond Knapp, the concept of money should include coined money, paper money of all kinds and the clearing money or the clearing organization respectively. Certainly, in this case, the other money functions: pricing function and the hoarding function, remain still open questions for us, and it will turn out, that any money, which has only payment functions, but not the two other functions, would only be imperfect, in particular, it would not be currency (standard money, local currency used as value standard as well as predominant means of payment.).

We want to state in advance, that the difference between means of payment and value standard will remain.

(2) See footnote 1) on page 2.

Seen from this position, the much quoted remark by Knapp, does make sense, namely, that money would be a creation of the legal order. A state-worshipping view wanted to interpret Knapp in such a way as if he would, thereby, have left to the state, that regulates the legal order, unlimited discretion and power of money, e.g. every possible debasement of money and wronging and harming of creditors. Knapp, however, very urgently declares, at the end of that paragraph 8 a, that he had to add something now: money would be a creation of the legal order in communities, whether they are governmental ones or private ones. (1)

In short, this sentence reads: payments are a regiminal (administrative) phenomenon. Before, he had explained that he understood a regiminal phenomenon could also be the administration of a private business enterprise; thus in no way would he understand a regiminal phenomenon to be what that view had wrongly ascribed to him, as if he would have spoken only of a governmental phenomenon. By this expression he means what we would call today an organizational phenomenon; the organization e.g. of clearing-houses (balancing and set-off centres), by which certain claims are confronted with each other in pairs, so that they can be offset. This method does not move any quantity of physical money ('money supply') but it is an essential feature of the process of payments. This, however, presupposes the unit of value, more precisely the currency standard. He repeats that the value standard unit arises only in communities, and that it is the precondition for payment transactions. A payment order would be possible, in which not a single piece of metal- or paper money would be moved, namely: clearing.

(1) Spaced by the author

§ 2. The function of price expression

In the process of payment and clearing transactions the concept of value standard is thus presumed. We have to deal with it now.

Usually one says that, by the introduction of money, the barter exchange was split into two acts: the sale of commodity A for money, and the use of the amount of money received to buy commodity B. Thus, instead of exchanging commodity A for commodity B, two purchase contracts are concluded. Both are settled at a certain price. In what, however, would prices be formed? Obviously in certain value units. One can also say prices are expressed by a certain number of value standard units. Thus prices exist previous to payment, because the fulfillment of the pecuniary claims specified in the purchase contracts is different from the purchase contracts (illegible: and from the self-debts?). But all purchase contracts must contain a price. And to determine prices, one needs value units. Such value units are always value standard standard units.

One recognizes the value standard of the currency of a country by the name of the value unit, in which prices in the markets of a country are usually formed.

It remains to be clarified whether, e.g. in a gold standard country, the price of a commodity, say, of ten units, which the parties agreed upon, is to be understood to mean that they have agreed upon a banknote of ten value units or upon a piece of gold of ten value units. The solution could be this: in case of a gold standard, always the effective gold units are meant. That follows not only from the fact that, afterwards, the money certificate might turn out to be counterfeit, but also from the possibility that this accessory money note may have a disagio (discount) that reduces its value to less than 100 % in gold units. In this case, in a gold standard currency, the seller has obviously the right to demand an additional payment worth the discount rate difference. Under a non-gold standard currency, i.e. a paper money with a paper value standard, in which such a note is legal tender (forced currency, with compulsory acceptance and compulsory value) then the seller has to be satisfied with the handed-over paper money, after he had agreed upon the price of 10 units (in the paper money's paper value units) even if the rate of this paper money is perhaps only 50 %, reckoned in gold weight units, of its nominal value, in foreign money markets.

Thus, after the conclusion of the two purchase contracts

firstly 2 claims exist, which are expressed in exchange media units. Money in the sense of a currency's value standard unit had already been there before, for, without it, one could not have expressed prices in the sales contracts. But money, in the sense of means of payments or set-off, has not yet emerged, in our example. As yet one has not at all paid or cleared the debts involved.

Thus, it is somewhat careless to say that, by the split of the exchange process into two acts, a monetary economy would have come to life. Not money, in the sense of means of payments, was required, so far, but, apart from the value standard unit, at first only claims are sufficient, so that one could speak of a credit economy.

Most claims, which - as described in the first paragraph - arise daily and hourly in various forms in economic life, are such claims from proceeds. We do not talk about unit prices, but the price per unit multiplied by the number of pieces, meters, cubic meters, hectoliters, etc., agreed in the purchase contract, thus the proceeds price multiplied by quantity is called total price or proceeds of sale.

There is, further, the case of delivery upon payment: Products are acquired and money is handed out at the same time. In this case, for a jurist, the time between emergence of the claim and of its payment is too short to take notice of it. Nevertheless, one can explain this case with the clearing of the claim of the seller against the claim represented in the money notes. In numerous other cases we have not delivery upon payment but sale on terms (credit). Here, the claim remains "unpaid" for a longer time. Then the claim becomes dissolved only upon payment or clearing.

We see, upon dealing with this example, that it is not the means of payments, especially not in sales on terms (credit), which play a role in accomplishing and expressing prices. It is a platitude that one can buy without money.

Instead, money in the sense of the value standard unit of a currency must exist prior to money in the sense of means of payment or clearing, so that prices can be expressed with it. When the purchase contract is concluded, the claim for its proceeds results, agreed in value standard units of the national currency, and only afterwards, usually considerably later, one has to think about solving this claim.

The generation of claims from daily commercial transactions was already emphasized in § 1. It was stated that money in its clearing function has nothing at all to do with the generation of these claims, and, that it has rather the function to terminate the existence of that claim.

New in these remarks is just this: it becomes clear, that, unconditionally, in every case, already before the conclusion of a purchase contract the value standard unit of a currency must exist, which is fundamentally and obviously different from the clearing or set-off process itself.

This value standard unit of a currency can be physically expressed, but also non-physically. Under the gold standard, the currency standard unit is constituted by a specific weight of gold. Often one tries to define this value unit by the value of a certain quantity of gold. This is impermissible. Each measuring unit must be defined by another unit. So e.g. the liter is equal to the contents of a cube, whose side length is 10 cm. The measure of volume is thus defined by the measure of length. Legally, the metallic currency standards, however, are only in rare cases defined by declaration of the fine weight metal per unit. For coin-technical reasons nearly everywhere is indicated, how many coins (of a certain number of units) are to be made from an ounce or a kilogram of the precious metal, the fineness of the metal being designated in detail. The German coinage law of 30th of August, 1924 formulated this:

§ 1.

The gold standard applies in the German Reich. The accounting unit is the Reichsmark, which is divided into 100 Reichspfennigs.

§ 2.

As Reich-coins are to be minted:

1. as gold coins: Coins of 20 RM and 10 RM.

...

§ 3.

From 1 kg fine gold

139 1/2 gold coins of RM 20, - - or

279 gold coins of RM 10, - -

shall be coined

The mixing proportion is 900 parts gold and 100 of parts copper. The shape and design of the coins is determined by the finance minister of the Reich. ...

The commentary of Koch & Schacht appropriately says: "A gold standard is that value standard system, in which the value of money is set in relationship to a certain quantity of gold; it is characteristic for it that only gold coins are minted freely. The payment power of silver coins and the total of their circulation is limited. ... The accounting unit, upon which the new German coinage system is built upon, is the Reichsmark. It is not expressed in the value standard metal (gold), but by a silver coin (1). The relationship of this coined accounting unit to the value standard metal of this currency is no longer a physical one. However, the Reichsmark derives its value from a gold coin, which itself determines the fixed coin price (Muenzfuss) (§ 3) of the German money. Namely, from the 10 RM gold coin ... Indeed, 1395 Mark pieces are not coined from a pound fine gold, but, instead, gold coins worth 1395 Reichsmarks."

One recognizes that it is not crucial, whether the particular currency standard unit is concretely made from the currency standard metal. It is sufficient that the whole of the circulating gold coins fulfills this requirement. In this the coins are pieces of metal, which are publicly and by their coinage characterized as money. By the mint standard one understands the indication of the number of coins per kg of precious metal. According to the coinage law of 1924 the gross weight of a 10-RM-piece including the added copper quantity of 10 % was 3.9824771 gr, while the fine gold weight was 3.58422939 gr.

The given example should be sufficient for clarifying the case of the value standard unit of a currency that is expressed in precious metal.

However, just to mention a second important case, the value standard unit of a currency can be physically constituted by a paper money certificate, e.g. a note of the respective central bank. The important thing in this case is the fact that this note is valutary, i.e. legal tender means of payment. The expression "legal tender" does not mean that the remaining means of payments are illegal and thus impermissible, which they are not by any means. This expression merely says that the creditor must accept this note, that this note can be imposed upon him and that thus this certificate, too, is a value standard of the currency. Our later remarks on compulsory acceptance will further examine this question.

In addition, there is the case - at least it is conceivable - where a value standard unit for clearing is not physically represented, e.g.

(1) by the 1 RM silver piece.

(Rittershausen added a note here which mentioned):

a) "Page 16a add newly: market rate money." - (this topic however is discussed in chapters 2, §8 in the improved structure, tr)

b) Page 17a add newly: "set-off". - (this topic is however treated in chapters 2, §9 under "clearing" in the improved structure, - J.Z.)

c)"chapter 'the index currency' (is already there!)." (such a title of a chapter is not listed in the structure, perhaps it belongs either to chapter 1 §2 the price expression function or §3 the hoarding function. At that time I found in the material only an old newspaper article directed about the Gesellians. Perhaps he wanted to insert that article here? I probably put it to his other articles on index currencies. Which one of them did he want to introduce here? That can only be clarified by visiting the Cologne university library for the original version of the clean copy of his last and 5. manuscript of the "Geldtheorie". - J.Z.)

the deposits in a bank, are means of payments with legal tender power and a paper money value standard.

Initially we stated that the value standard unit of a country is ascertained by checking which units are used for expressing purchase prices in trade. Since the currency's value standard unit is impossible, which is a juridical rule for the payment of debts, the value standard unit of a currency has still a second meaning: it may not be rejected by the creditor in the dissolving of debts (payment, clearing). If the creditor does this nevertheless, then the debtor is entitled to deposit the amount of the refused money at court, thus legally fulfilling the contract, so that he can no longer be sued.

The predominance of the importance of impossibility, asserted by some authors, over the significance of the value standard unit in the expression of prices may not be assumed to be correct. For both functions of the value standard are equally important. From both functions it follows that the claims arising in commercial transactions are expressed in value standard units and have to be settled by clearing procedures also expressed in value standard units, possibly in such as have to be accepted. Therefore the function of expressing prices and impossibility are closely connected.

We had said that the payment function of money is independent, so that there is a variety of monies, that do have the payment or clearing functions, but not the characteristics of a value standard unit. Usually, only a part of the kinds of monies is valutary, i.e. is the value standard of a currency. From this circumstance follows a substantial difficulty: A large part of the debtors does not use valutary means of payments when paying debts, while the creditors have always the legal right to demand valutary means of payments. Thus all holders of valutary means of payments appear as privileged, all at the same time. Therefore, in cases of great shortages of valutary means of payments or of the value standard units of the currency, all purchase contracts for goods can be understood as dealings in futures or forward contracts, or future delivery contracts for scarce valutary money or value standard units, in analogy to the commodities futures markets known to be risky. In times of credit crises these masses of forward contracts of valutary currency can, usually, not be fulfilled. Massive delays of payments and inability to pay are the consequence.

It is an essential task of the monetary theory to overcome this difficulty. In discussing impossibility we will have to deal with this question.

A value standard of a currency is the means to express prices. To do so it is the value unit. And with it, it is, so to speak, the "measure of value".

One has attempted, when defining the value standard unit to resort to the experiences we have had with physical measuring units. However, it must be decisively denied that one can draw binding conclusions for monetary theory from certain similarities between the value standard measure and the physical science measures. (1) For instance, one has demanded that the value standard measure be temporally and spatially unchangeable, something that would be self-evident for physics. However, the value of the gold unit, measured in terms of purchasing power, is not completely unchangeable, since price fluctuations of goods cannot be avoided. Experience has shown that this flaw of the gold standard is negligible, since the task of the gold value standard unit quite contrary to physical units of measurement, is not invariability. Rather it is decisive that the main part of the population sees it, subjectively, as suitable for temporary and lasting preservation of wealth.

The hoarding propensities of the population are based on very complicated psychological phenomena and are in no way amenable to physical investigations.

Still another difference to the physical measure units must be emphasized:

The materialization of physical measure units is used again and again anew; a metering rule e.g. is being used for many years in a cloth store, in the hand of the same owner. The value measure, however, is at the same time means of payment; in immediate delivery for immediate payment transactions it continues to move from the buyer to the seller and in many cases daily from him to other businessmen. In this process, each time anew, an evaluation is made not only of the commodity, but also of the money piece, by the considerations of the customer and of the seller, whether the respective commodity and the piece of valutory money in front of them are really of equal value to each other. Thus a businessman can never measure the prices stipulated in his store with the same piece of money, instead, ever changing pieces of money are used, even though they are of same kind and quality. Add to this, that the persons interested in physical measuring units always employ the same tests, while the psychological processes

(1) Here, I am especially indebted to my friend Professor Dr. Ing. O. Loebel, for his astute remarks. (See the Munzer/Loebl discussion in the Beckerath papers, tr)

in evaluating commodities in terms of monetary units are completely different on the demand curve from those on the supply curve. Thus, a useful further development of the concept of a measuring unit for economic values on basis of analyses of natural sciences should neither be permissible nor should it be expected.

The function of price expression cannot be completely separated from the payment function. In an emergency, the means of price expression must be usable as money of par value, even if the large mass of the clearing processes may happen without its assistance. But clearing for itself can be separated, without completely losing its money character because of this separation. The hoarding now to be discussed, must, likewise and in principle, remain connected with clearing and price expression functions.

§ 3. The hoarding function

At first sight, there seem to be only three characteristics for money:

- the value standard unit,
- claims and
- an organization, which sets the latter opposite each other.

Upon further investigation another monetary function is seen: the hoarding function in its double shape, realization of liquidity and of security of economically active people.

I. Liquidity

a) Primitive liquidity

All people who have to make payments frequently need a stock of claims, which can be used for paying purposes. These claims must be specially qualified. In particular they must be claims against banks or other claims, which can be transformed into claims against banks. Likewise useable are bullion, coins, shares or other valuables, which are either money themselves or which can be transformed into money at any time.

"The population's propensity to hoard values, which can be used immediately for payments, is called liquidity. Everywhere, people are dispensing with complete use of the current

goods production for immediate consumption and retain a part of the output for exchange purposes" (Veit).

Some wealth is built up from goods that are not consumed and is held in the form of liquid means. For the economic system prevailing today, Otto Veit differentiates the following scale of exchange qualities, and with it grades of liquidity of goods:

Money

- gold coins
- change coins (divisional coins?) and notes in small denominations,
- notes in large denominations,
- assets at the central bank,
- daily withdrawable deposits in commercial banks,

Money market papers

- bills of exchange and treasury notes discountable at the central bank,
- bills of exchange discountable at other banks,

Term deposits and savings accounts

Text in parentheses added by the author.

- securities - acceptable as collateral by the central bank, (securities with fixed interest rate.)
- securities (with fixed interest rate and shares) - officially traded at the stock exchange,
- securities - traded unofficially at the stock exchange,
- goods traded at the stock exchange in hands of the sellers,
- securities - traded on the free market,
- ready for sale goods in hands of the sellers according to marketability
- (works of art and antiques of market value),
- mortgages and other debts on land according to their order of priority,
- real estate - vacant building land,
- real estate, built upon or cultivated,
- (machines and equipment),
- claims from bank credits according to their maturity,
- not yet ready for sale goods in the process of production,
- (private debtors),
- (claims of groups of heirs of partnerships not traded at the stock exchange and other wealth difficult to liquidify).

One could make a number of annotations on this scale; however, here and now, it should be accepted without contradictions as essentially correct. The most liquid values are on top of the list, the least liquid values at its end. The need for liquidity is fundamental and ineradicable; it is general and not limited to monetary and credit economies only. People living under barter conditions as well, yes, even animals, do differentiate between objects, which are immediately useful to them, without which they would not survive, and objects, which they do also need but

only later. For instance, someone living purely by barter would have falsely disposed of his energies if, one day, at noon, he had provided only for weapons, boats or other long-term tool, but not for food, which he can consume immediately. Predators as well do differentiate between wild game pieces just eaten and animals in free hunting-grounds. All dispose by aiming at a supply of both in appropriate proportions, particularly of course humans in the modern economy.

b) Liquidity of the Bears of the stock exchange.

To the liquidity requirement in this natural form must be added the still stronger liquidity need of the bears at the stock exchange. Keynes and Kunwald had, too narrowly, called only the latter type the "need for hoarding".

In the modern economy of credit and expectations price formation does no longer take place exclusively in a static way, according to § 2, at the crossing of the supply and demand curves estimated for that moment. Those businessmen considering their demand and finding that they would buy e.g. more dress cloth in case of cheaper prices calculate only for the moment and do not consider future expectations and future fears. In any case, statics operates in this way. In an expectations economy, which, by the way, is in no way identical with the dynamic economy, future expectations are considered: If they are under the impression that the expected price reductions would continue, then they do not buy, in spite of cheaper prices, while waiting for still lower prices. In a fully developed expectations and credit economy, this inclusion of future prices in supply and demand calculations is generalized and concentrated in the stock exchanges: The Bears expect price reductions, therefore they accumulate money and sell commodity futures without again stocking up on them, even without possessing the sold commodities at all, as yet (trading in futures). The Bulls expect price increases, therefore use up their liquidity, to buy commodities, partly on credit beyond their own funds (trading in futures as well). Both parties wrestle with each other. If they are equally strong, then the Bulls borrow their liquidity from the Bears. The total liquidity is then unchanged or normal. However, if the Bears prevail, then large amounts of liquidity are accumulated, the corresponding values rise in price, while the less liquid values experience price falls. The new savings, which take place simultaneously, flow to the Bears, who, because of their price expectations neither buy nor invest. In case of a one-sided bullish mood, it is the other way round.

In the perfect credit economy, when the banks are ready to grant owners of vendible wealth credit of some per cent of this wealth, price formation (on markets for commodities, securities and real estate) does no longer consist of an exchange of the commodity or service just sold against another commodity, but of an exchange of liquidity against goods, or of goods against liquidity. This exchange

is facilitated by credit, i.e. by a loan-based acquisition of the still missing liquidity. Interest is then the reward for the renunciation of liquidity.

Thus the liquidity of the predominant Bears increases the first mentioned "primitive" liquidity, probably including the credits drawn, or liquidity is diminished by bullishness becoming predominant. "Bear liquidity", as we want to call it, is not fundamentally different from "primitive" liquidity, for both are based on expectations, on renunciation, on expectations for the future. It is the same liquidity, in a refined form.

II. Security (Wealth Accumulation, Higher Appraisal of e.g. land and building values)

a) Essence

One century of gold-standard currency, of the sanctity of the rights of savers and of the refusal to interfere with them even on the side of the political opposition, did satisfy the need for security, which a currency should also fulfill, as its name, in German already states. They had served so perfectly, that the newer monetary theory has forgotten about such security needs. Goods in unlimited supply are counted among the free goods and become worthless, be they as useful or even as indispensable as they may, e.g. air for breathing. The hoarding function of money does not only provide for liquidity needs, as Keynes, Veit and others seem to state, somewhat one-sidedly. Rather, its composition is more complicated. Generally speaking, psychology in our science has so far not had its say continuously but only selectively, on some points. At least the need for hoarding, which we understand here in a broader sense than the "modern monetary theory" does, embraces more, at least still the need for security and durability of value storage. In the long run, a currency cannot exist, if it satisfies in no way the value storage needs of the population. Then it falls victim to refusals to accept it. The theory of a very dangerous repudiation, which, as all theoreticians admit, can terminate the life of a currency, has always been recognized, but its premises have not been correctly assembled into the theory.

Let us return to the liquidity scale of Veit, which was compiled out of the needs of the banking business. However, the private citizen or entrepreneur when facing banks has still to consider the difference between monetary values and real values. In the case of a metallic value standard he cannot suffer losses from currency coins. In the case of monetary values he can suffer losses only if the debtor of the respective claim document, which is expressed in monetary units, will become individually weak. In the case of real values, on the other hand, he can suffer losses from the associated usual risks, thus to price fluctuations in the case of goods and properties. In the case of the paper value standard of a paper money, however, those, who possess the paper value standard units of a currency or claim documents denominated in it, can, by depreciation, lose an unlimited amount, up to 100 % of their assets. In contrast, owners of tangible assets can only be exposed to the same considerable dangers, which they would have faced under a metallic standard as well; however, these dangers would, applying intelligence, never go up as far as 100 %. Consequently, Veit's view is correct only for the case of the gold standard. In this case people would sort their values according to the order of his scale to always stand prepared for unexpected events and payment claims. If, instead, a paper value standard prevails, which in itself is already risky and whose risk is increased by an economic policy that "silently" and continuously sacrifices the interests of money creditors, then this liquidity scale cannot be considered as completely satisfying the concept of hoarding.

The liquidity need of the individual does not stand alone. Besides, one has to consider the security needs. While the liquidity need wants to provide for suddenly arising means of payment requirements of the next days and weeks, the need for safe keeping would like to put values aside and wants to hold them in readiness, eventually for medium and long-terms. Such values allow a secure existence later, even in a distant future, particularly in old age. For the case of an unstable value standard of a currency the following scale of values preferred for secure hoarding might be applicable:

1. Primary hoarding goods:

- Precious metal as form of bullion and coins,

2. Secondary hoarding goods:

- Jewelry, watches, diamonds, antiques and other precious goods,
- Durable food,
- Textiles not exposed to changes of fashion, pieces of clothes, carpets, furniture, cameras, office machines, etc
- Stocks and partnerships,
- Occupied houses managed or inhabited by yourself,
- Building blocks and market gardens
- Trade goods,
- Furniture, almost everything that is movable.

3. Things to be rejected, because they are monetary values:

- Money (acceptable as hoarding good only under the condition, that there are debts of equal amount)
- Paper money and banks deposits, short-term money market papers, savings bank accounts and bank deposits,
- Long term bonds & mortgages.

The scale of these "securities" differs from those of Veit like the Bulls differ from the Bears: The first half of the liquidity scale contains only monetary values, that of the scale of the securities contains only tangible assets. Those who go into money distrust the price development of tangible assets. Those who go into tangible assets distrust the development of monetary

values. Here we achieve a fundamental result, one that remained hidden for decades due to an all too narrow (trimmed) definition of hoarding (probably because it was unpleasant): Under the gold standard (together with other metallic standards of a certain type later called by me "self worth currency") security and liquidity coincide, under a paper value standard of a currency ("fixed rate currency") both fall apart in the course of time or immediately.

The kind of liquidity goods and the kind of hoarding goods preferred by the main part of the population is of greatest importance for the economy and for the policies of government. One has to state not only that different scales of liquidity and security goods are to be used under different currency types, but the householders and managers of economical enterprises will consider the following: They will want to make allowances to both the liquidity aspect and

the security needs at the same time. So they will make a selection from both scales. In this it is remarkable that, in almost all "civilized countries" during the last decades and to an increasing extent, the state has exerted its influence on the kind of liquidity and security offered. In particular, the State has eliminated precious metals as means of liquidity and secure accumulation by abolishing the gold standard in most countries. Instead, it offered monetary values issued predominantly by the government (bonds etc.). These, however, are not or only secondarily considered by those operating in a fixed rate currency economy (cours forc  currency, fiat money, paper money, fixed rate paper value standard currency) for reasons of currency fears, so that an ever larger demand can be noticed for merchandise (commodities, goods) among the later ranks in the security scale.

Therefore the issue of security needs has to be addressed in greater detail. The need to store and secure abstract economic values is generally underestimated. However, in the social world it is one of the strongest needs of all that are effective. It is so alive and intensive that it often proves to be stronger than altruistic ideals and other economic considerations, even stronger than hunger and love. As a very primitive feeling operating in the lowest layers of consciousness, it includes a need to view, touch and possess the property, and, on the other hand, a longing for stability, which is ineradicable and turns to other means (e.g. stockpiling, pensionable executive positions, hereditary serfdom etc.).

This need is primarily directed toward certain economical hoarding or accumulation goods, the value of which is promoted by beauty and rarity and, psychologically, has become a content of the masses' consciousness. Not the need for practical-technical use is decisive, but the need for a value carrier, not the conceptions of sober banking people and money specialists, but the erroneous unconscious conceptions of the mass of the population, formed over thousands of years. At present, practically only gold, silver and, under the gold standard, alternatively also certain kinds of paper money and bank account money, come into question as such primary economical accumulation goods. Since with the latter the sensuous shine and feel is missing, so nevertheless apparently the kind of printing, beauty of the pictures and newness conditions seem to play a role.

b) Price formation of security goods: the demand

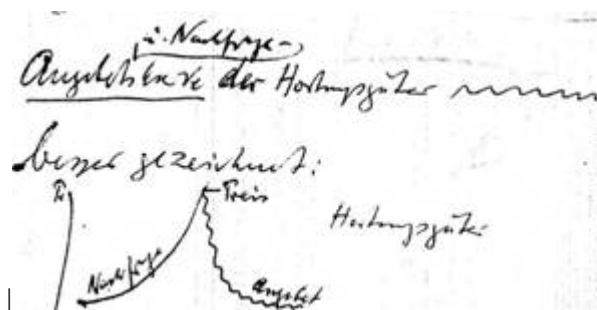
With all other goods demand rises, or at least it remains unchanged, when their prices decline, even when they are strongly reduced. But demand for a security good declines, when its price declines excessively. Because here, the accumulation need is directed toward possession for reasons of value preservation, thus toward stability. If the value-keeping material proves to be less reliable, through the fact that its exchange value steeply declines, then and thereby its suitability for satisfying accumulation needs decreases just because of that. E.g. if silver were to be found as frequently as copper, so that annually 200,000 wagon loads instead of 814 were produced, then, although by this multiplication of supply, it would conquer very widely extended usage, at the same time and to a large extent, it would also lose its previous use as an accumulation good. Watch casings e.g. would no longer be made of silver, but out of stainless steel, which is much more suitable and harder, or of nickel. Price formation of accumulation goods thus always takes exactly the opposite direction of that of all remaining goods; a fact, which was hardly ever considered by the entire literature and hardly ever utilized in economic policies.

c) Reduction of the "money supply" in times of boosted inflation.

From this it follows that during strong money depreciations, e.g. due to large additional note issues, the "quantity" (1) of that money, which is payment commodity and accumulation commodity at the same time, shows a decrease, instead of an increase. Indeed, at first there is a rise of the quantity of means of payments in circulation (by the amount of the additional note issue plus the dissolved money hoards), but this "money" is merely a "limping" money, it can only continue to fulfill the payment function, but no longer the one crucial function, the security function. Thus, because of its depreciation, paper money and bank deposit money becomes useless as an accumulation good, as far as it served so far as such, and is no longer in demand; together with the hoarding function, these kinds of money finally lose

(1) This quantity of money does not correspond to the term "money supply" of the modern theory, since not all payments are performed by the accumulation goods; nevertheless, the expression is often used in this context.

(Rittershausen inserted here a sheet 29 A, with a rough and handwritten sketch for the supply- and demand curve of accumulation goods. It is partly reproduced here. Vertically: the price, horizontally: the supply)



Supply

also the payment function and thus the proper character of money. The sudden restriction of the money functions upon the payment function alone does activate the quantity of the security good so far not used for payments; thus it suddenly increases, and this in a dangerous way, the quantity of money available for payments only. Thereby such an excessive and disproportionate further depreciation of money occurs (price increase, black market in case of price controls etc..) that prices increase faster than the note supply could be increased by the printing press. With the remaining monetary values the goods turnovers can no longer be sufficiently achieved. Even technically, a comprehensively applied liquidity plus hoarding for security purposes, whether for hours or years, is indispensable for the accomplishment of the daily payment transactions. Liquidity [in means of payment], when hoarding for security purposes runs contrary to it, i.e., does not run parallel to it, is not sufficient, on its own, to keep turn-over means [means of payment] in circulation. A terrible restriction of the means of circulation occurs. There is no money, because that money, which visibly remains, is no longer a full money. Thus the circulation of Reichsbanknotes in Germany in 1923 declined from approx. 3,000 Million to 100 Million, reckoned in Goldmark and a very large percentage of the enterprises had to close because of money shortage, although note printing plants and numerous private printing plants, which were asked to help out, were working day and night. At the same time, the value preservation need was stormily directed toward other goods, which can be called secondary security and accumulation goods. Here, in particular, shares came into question, real estate, jewelry and luxury goods, furniture, and, finally, "everything which was not riveted or nailed down." With elementary force, the security and accumulation need is particularly directed toward certain currencies of stable value, if available, e.g. illegally circulating foreign exchange, which became at once money, even before legislation was able to sanction their emergence.

While thus the demand for security goods (paper value standards) declines when they are strongly depreciated, a dissolution of security hoarding takes place and new security goods are searched for, the demand for security goods will increase and they will be hoarded excessively when their value increases strongly, because the value of the investment therein rises. Thus price reductions of money, in case of strong changes, have a reverse effect on supply and demand than have price changes in general commodities.

d) Price formation and security goods: Supply

The second difference between security goods and the usual consumer goods is the fact that the hoarded stocks, which serve for value storage needs, do not disappear from the market. They are not consumed, i.e. not destroyed, because nearly all buyers acquire such goods just because they can exchange them, when necessary, against other goods, thus because they neither do consume nor want to consume them. In the market, a balance is being found between new supply of and new demand for consumer goods and capital goods (means of production). Installed means of production and used up consumer goods drop out of supply. In case of depreciation and repudiation (rejection) of a hoarding or security good, however, the whole mass, hoarded possibly over centuries, appears in the market. Therefore, the consequence of repudiation of a security good (accumulation commodity, metal or paper money, bank deposit money) is an imbalance for the market of this commodity and the possibly enormous savings invested there, thus a disaster, which swells avalanche-like, while price reductions of any other commodity lead directly to market adjustments. In the case of silver, for instance, the hoarded world stocks amount to approx. 350,000 tons, while annual production amounts to about 8000 tons. For gold, the stocks and production (valued in US dollars) come to 30 billion and 1.4 billion; for the German economy alone, converted to D-mark paper money, perhaps to 150 billion and 15 billion. There are no similar conditions for most of the remaining goods. Among long-lived consumer goods the supply of housing is similar, as demonstrated here. (1)

e) The displaced security need

The false theoretical development of the last 2 decades tried to understand, in one-sided way, the quite recognized hoarding as a striving for liquidity, attempted to suppress the security needs and to divert them to paper- and bank deposit money; however, the power of the irrational primal instinct for security in metal was underestimated. The accumulation-hoarding need is most strongly

(1) see quotation

met by the effective circulation of rare metal coins of full value. From experience, paper money can serve for accumulation only to a smaller extent. Through displacement (repression of the natural options) one achieved, psychologically, only misallocations which caused disturbances. E.g. the effective gold circulation was generally called a prodigality, because one did not recognize, what element of general security and stability was provided by such an effective metal circulation. Perhaps it represented the capital investment with the highest efficiency of all. By increasingly taking gold out of circulation and villainizing silver coins by forgery-like minting below value, one took away from the people the objects for their original and traditional hoarding and accumulation needs, anchored in the deepest layers of consciousness (1) and directed them to the unmethodical search for new accumulation goods, unwisely without offering to them suitable ones.

Investment in stock exchange values, offered as a substitute, was too often disappointing, and did not satisfy security needs. On the contrary, it increased insecurity, all the more, because an economic and stock exchange-constitution based on the paper value standard of a forced and exclusive paper currency suffers from particularly large price fluctuations. Excessive international capital migrations, refuge capital, political uncertainty psychoses and flight into commodities were the results, which then entailed still larger uncertainty.

On the other hand, the presence of full worth money in real circulation of a country has to be judged favorably, as long as the mass-psychology attitudes do not change. The views of the masses have not changed. This is demonstrated by a look at the material composition of military medals and high political and military badges of rank of all countries, from Russia to the Hitler Reich to the United States. In England and by English theoreticians coin circulation was very highly estimated up until the 1890s. In Germany, after the end of the inflation in the year 1924, one could only regain confidence of the people for its currency by re-establishing silver coin circulation, and this with great success. After 1933 the new government first re-coined the 65 % silver 5-Mark-pieces into coins with 90 % fineness (decree of November 7th, 1933), thus affirming the usefulness of full worth metallic circulation and creating

(1) see Rothacker.

confidence.

The existence especially of a full-metal-value circulation is the only known and completely effective means to restore a displaced and disturbed hoarding and accumulation function, thus also a means to prevent the destruction of the value standard of a currency by domestic distrust. It is an automatically functioning brake against the sudden effects of political crises and other crises of confidence. Beyond the economic sphere, it is a strong element of political confidence. In contrast to an almost childlike viewpoint of so-called "money theoreticians" and a completely pre-scientific one in terms of mass-psychology, the silver specialist Kunwald stresses this importance of hoarding and accumulation and thus of the effective metal circulation with the following words:

"The coin speaks - how well did the Romans know that! In daily circulation, it speaks louder to the man of everyday life than laws, which he does not read. It daily tells people not only about power, but also about reliability and loyalty of the highest national authorities ... By experience, no social structure of rule bears up against the unreliability of the monetary system."

Indeed, we have realized that in Europe, Africa and Asia. E.g. the fall of the British Empire by voluntary dissolution of the central governance followed absolutely the renunciation of the gold standard in England, which was regarded as hauling down the flag, as generally known in the liberated countries.

f) The end of the consumption vs. hoarding and accumulation decision.

To this must be added the likewise not sufficiently considered importance of hoarding for the price formation in commodity markets. Money and commodities only match when hoarding and accumulation is accomplished. In the heart of buyers, the "propensity to consume", as Keynes called it, struggles with the propensity to save, to remain liquid, to hoard. When the hoarding function of money is disturbed, only the one-sided propensity to consume remains for its holder. Nobody wants to save any more. No longer is there the problem of deciding whether to keep or to spend money, directed by the interest rate. There remains only the job of choosing

between different goods, often some that are not immediately or soon needed at all. The consequence is a run on commodities, in various degrees, up to the sellout of consumer goods, also of investment options, -- while saving activity, the stock exchange, the industrial and public loan market suffer.

As proven by experience in Germany from 1947 to 1951, the following extreme case can happen: Interest formation comes to an end, since everyone wants to become debtor, while nobody wishes to become a creditor. Interest as the price for renouncing some liquidity goes up to near infinite. Anyhow, it exceeds all rational rates that could be justified from the profit point of view of industry. With this the private financing of industry ends as well. Only government remains to finance industry, through revenues from taxes; and industrial companies, with already existing plants, finance "themselves" through high profits. This special form of financing oneself out of one's own monopoly profits, in enterprises too little limited by competition, happens coercively, at the expense of the consumers. Just like it happens with taxes. This special form of financing is increasing ever more, because in developed credit economies, credit as an engine for start-ups and of new competition is of paramount importance. Then it ceases to exist, and with it, competition disappears, too. Due to the one-sided propensity to consume, the one-sided bull-market-mood without a bearish position, thus due to disturbed hoarding and accumulation, the system of competition is crucially weakened, and instead, monopolism and a system of state supremacy is favored, the price level is excessively high, and exploitation in the sense of Marx is caused. By that, the foundation of democratic-liberal systems of government becomes eroded. Without a complete hoarding and security function of money, in practice without a gold standard, preservation and continuity of western civilization could become doubtful. For without it, there is no private capital, no capital market, an insufficient degree of competition, no free and durable enterprise.

Those additional commodities bought as a substitute

for normal hoarding and security options, are mostly uneconomically misdirected. Production capacities become overstretched, raw materials and workers are wasted, since normally they are not currently needed, since hoarding and secure accumulation would be more suitable. Social security needs of the broad masses are displaced into illusory solutions, like "right of co determination", because their natural satisfaction remains blocked.

Thus, to disturb hoarding means to intensify imbalances in commodity markets, wild demand for goods, therefore a tendency for price rises and for deterioration of quality. Economic policy, industry, savers and workers have, therefore, an urgent interest in recovering the hoarding and accumulation function of money. For example it was impossible to establish an equilibrium of commodities and money up to the end of 1923 and to June 1948. Not only did national price control fail at these occasions, but the state deficit became ever larger, because, finally, nobody wanted to buy bonds and save any more, so that the government's budget, e.g. in 1951, was still more overloaded with investment expenditures for industry. Starting from November 1923, after the introduction of money with stable value and partly also of metallic money, a reverse movement of unforeseen power started: The flight from commodities into money began. Every single Mark of stable value was regarded as precious good, and in contrast to this, the previously imagined value of those goods melted down, suddenly, goods that before one had assumed to need, rather urgently. Many less commodities were demanded. Suddenly, even the national budget could be balanced because of restored hoarding (loans for the government) and this cause of imbalances disappeared, too. After the German currency reform of 1948, in wrong psychological judgment, one initiated by an American student of economics, neither gold nor silver were offered to the German people, addicted to hoarding. The consequence was a rare and floating condition: money regained the payment-, price-expression- and liquidity function, but was strictly rejected (at least until 1951) as a means of hoarding and accumulation, so that further favorable consequences did not eventuate.

In conclusion, it must be pointed out, that disturbances of hoarding and accumulation affect also production in an extremely unfavorable way. For not only do the consumers flee from money to goods, when the security factor is not present,

but the sellers, too, do the same. Manufacturers hoard raw materials and workers (see the manifold regulations issued from 1941 to 1944 in Germany to fight of this evil); traders keep good commodities for themselves and pass on only inferior goods (see the "private libraries" of the bookseller & the pseudo-artistic commercial articles); farmers eat their eggs themselves; something they would have regarded as a crime in times of healthy wealth accumulation (functions); and workers loiter away their time and do private work.

If one wants to deal with this reluctance to supply and to perform merely with wage-concessions, like "incentive wages" etc., then one merely treats symptoms. The result will be: Further price increases, still greater monetary depreciation, a still stronger erosion of the hoarding and accumulation function of money.

In economic policy practice, it is usually the decline in production that enforces a change of the course of economic policies. It was not the own insight, but only the strike of the workers and savers in 1923 and 1948 that had forced the ruling powers to stabilize the currencies and thus to attempt to re-establish the hoarding and accumulation function of money. Hugo Stinnes and Friedrich Minoux, his former general manager, repeatedly declared, still in 1923, prior to the stabilization, it is "still too early" (i.e. one's nest was not yet fully feathered), and the governments as well as the trade unions yielded to this vested interest view. Nobody appeared in parliament as a spokesman for the people, whose standard of living had sunk to approx. 1/10 of the previous one. In 1948, behavior of the allied and of the German carriers of sovereignty was unfortunately the same. In both cases, reorganization was enforced only through strike of the producers and the savers; the other motives were secondary compared to this driving power.

g) An economical satisfaction of the striving for security

The satisfaction of security needs appears first like the hypothesis of consumption. It is well known, that one wanted to remove "consumption" considerations from the "rational" economics, as a supposedly irrational factor. However,

the economical satisfaction of this need is, indeed, a problem of economy, whose treatment is even very productive. In any case, to meet hoarding and accumulation needs costs something. The only question is, whether the costs of the irrational covering of the misled hoarding and accumulation drive are not very much higher, perhaps even 10 or 100 times as high as the costs of the metallic value standard. Here only some results of such investigations shall be briefly given.

1. The hoarding of trade goods is uneconomical, since the billions invested therein are depreciated within 10 to 30 years by wear (clocks e.g.) and getting out of fashion (cameras, etc.). Still more uneconomical are very luxurious goods (e.g. of clothes, meals) and the hoarding of foods, which spoil.

2. Hoarding in precious metals, coins and bullion, is very economical. 99 % of the goods necessary for this are already present and do not have to be produced first and taken from the national product. The present owners (the American taxpayers) are not satisfied with today's removal of the hoarding and accumulation item gold from circulation, at their expense, and look for its redistribution, even look for their own security in gold. However, it is crucial, that under a pure gold currency all monetary obligations denominated in gold units (fixed interest securities), the outstanding mass of hoarding and accumulation goods become security goods at the same time, because liquidity and safety precautions do match to a large extent; so that they do not only cost nothing, but strongly stimulate credit. Compared with this result the cost of gold that is so utilized is negligible.

This simultaneous covering of liquidity and security urges does not exist under (fixed rate-) paper currencies (see page ...), because there only the liquidifiers remain partially in money, while the hoarders go for goods. Thus, the whole machine, whose effectiveness lies in the fertilization of long-term credit, runs dry, so to speak, runs even backwards because of the additional and economically useless hoarding and waste of trading goods. What a beautiful machinery did today's laymen accomplish - only it doesn't work!

3. One has to keep in mind that the price formation function of a single hoarding commodity should not be overloaded. As many as possible stable value accounting- and security and accumulation measures are to be made available, when trade desires them, and commodity prices must be left as far as possible to their free formation. If, by national decree, all commodity prices, possibly also foreign exchange rates, stock quotations and wages would become fixed, then gold would therefore be the only price-free commodity. Its price formation would then become completely abnormal, since all spare funds, under various psychological motives, would attempt to make gold purchases or might, suddenly, dissolve their gold hoards. By such excessive fluctuations, gold would be prevented from playing its proper role as a hoarding and security accumulation metal, since its price formation would move by leaps and bounds.

Something similar happens in the foreign trade in goods and gold. When, by quotas or tariffs, all or nearly all goods are inhibited in their freedom to move, then gold can be the only tariff- and quota-free commodity. Then, under balance of payments changes, the balancing function of gold would be overburdened, it would flow out or in excessively. Therefore it is necessary that many goods can be exported and imported freely, so that these would primarily take over the balancing function, and gold having to cope merely with the still remaining balances. Likewise it is better when several popular hoarding and accumulation goods are available in the internal economy, so that the whole security function is not based on one single commodity alone, e.g. on gold, but is better distributed.

§ 4. Importance and relationship of the money functions with each other

We summarize: Money, as means of payment or clearing, serves to transfer claims and debts, and, as currency (value standard), serves to measure and to keep values.

Not all kinds of money fulfill all of these three functions. Money, which serves only as a legal-organizational means to settle, without being value standard money, is also called means of payment or means of clearing (offsetting or settlement). It is deemed to be imperfect and dependent money, or "accessory" money (money substitute). In order not to deviate too much from linguistic usage, we do not (in contrast still to Knapp) deny it money character.

The function of measuring values and expressing prices is the nature of a standard. The standard is money of a higher degree than mere means of payments. Means to express prices are always and at the same time means of payment or means of clearing; a currency unit, which could not at the same time be used as such a means, could not express prices, because it could not allow value comparisons in the formation of prices, and therefore cannot be standard-money. Standard money is called "valutary" (German: "valutarisch"); thus it has not only the functions of expressing prices and of paying, but this payment function is special: Valutary money, the standard currency, is always either legal tender (money with compulsory acceptance and forced value) (compare § 11 "paying power") or it contains in itself a generally recognized and undoubted internal value: it is self worth money (e.g. metal money).

To raise a standard money, which ranks second in money quality, to perfection, the third money function is still required: the function of hoarding, which has two purposes: the function of liquidity and the function of safety. Without the hoarding function price formation in a perfect credit economy cannot come about, namely the free choice of individuals between purchase and non-purchase, and without it a money's function of preserving value is not given either. The money of a perfect currency thus comprises all three money functions, a standard only two, means of payments only one.

Apart from these three main functions of money some secondary functions are to be mentioned still: Money can be used for tax and tariff payments, also as gift. It can

also be handed over, in simple exchanges for goods over the counter. Juridically this is not or not always a question of resolving debts that had previously been generated. All this applies also to "accessory" money.

Value standard money, as far as it is not metal money of real value, but paper money that, by government regulation, can be forced upon others (legal tender), can also be used as a kind of unnoticed tax in favor of the State, as a "requisitioning certificate" (de Viti de Marco), and generally as an instrument of business cycle- and export policies. Thus and for this special form of money we can also determine a further function. Perhaps one could further say that it actually creates the credit economy and its special way of connecting production and sales by incomes and income use. However, this characteristic of money might go beyond the teachings of the functions of money.

Later, the main business branches of the banks will correspond to the three functions of money: payment activities, the trade in liquidity and the trade in securities.

(J.Z.: pages 40 to 51 seem to be missing in this manuscript, if one considers only the page numbering. But according to the contents list, no chapter is missing. Rittershausen has probably transferred the material previously contained in pages 40 to 51 to later chapters. On this page, Rittershausen has changed so much by handwriting, also in the original contents list, that, perhaps, I did not correctly transcribe all details.

One of his notes is, however: "(40-51 are missing)" - Did he still wish to insert something here or merely point out that the side numbering is interrupted in the newer version? - J.Z.)

(There are 5 versions of the manuscript, with even the 5th remaining unfinished. He took parts of the earlier versions into the later ones. I haven't got the complete set of the 5th version, especially not a ca. 80 pages transcript. The photocopy of it did get lost somehow and is not readily accessible at the University of Cologne. Thus I could only partly reconstruct the latest version and I do not claim that I did so always quite correctly, although I tried, using the pages of all versions that I had in photocopies, made with his consent and that of his wife, while I lived for a while in their house, browsing through his library and papers. He wanted me to translate some of

his writings into English, e.g. his Fischer Lexikon. It did not feel up to it and was and am more interested in his monetary writings, still not made fully accessible to the current "science" of economics. - J.Z., 16.2.06.)

Chapter 2: The different kinds of money. The units.

Preface

(Handwritten notes: "Definition of the spoon [Withers?])

§ 1: Payment is clearing, has nothing to do with liquidity. But § 2: Price expression: Is that equal to barter with something? No, the uniform value standard of a currency would be missing there.
§ 3: Hoarding? Here more liquidity.)

The different kinds of money

We differentiate three kinds of money, i.e.

(later five! - 3: a, b, c were changed in the contents list to 5 after he added metallic redemption money and clearing: § 5 - § 9. - J.Z.)

1. High-quality liquidity

§ 5. Self worth money,

§ 6. Redemption money,

§ 7. Fixed rate money

§ 8. Market-rated money

(§ 9. Clearing: However note: "no, take out, is a function!")

2. Liquidity of lower degree

Clearing

Liquidity

Here, one must be aware that under "kinds" (§§ 5-8) only the physical money is meant. (Only the kinds of money, which are physical or appear as accounts, can be divided into kinds, a "nothing" cannot be divided). When, as shown in § 1, two equivalent claims face each other, which are then extinguished by set-off and make way for a 'nothing', and when I consider this reduction to nothing (mutual cancellation, skontration) as a monetary activity, then this money cannot be included in the theory of its kinds. If, however, as we did in § 1, we consider the credits (debts) that are then and thus confronted with each other, as money, which is a question of definition, wherein the qualification must be made that quantitative discussions are here inadmissible because of the possibility of clearing, then one can speak here as well of a "kind" of money.

For the further justification of our classification the following may serve: One can discuss money according to different subdivisions: according to the material, out of which it is made, according to the functions, according to the inclination of the large mass of the population to possess money of a certain kind, briefly: to hoard it, finally, according to legal or juridical regulations of acceptance. The grouping according to materials did not satisfy, because there is money without any intrinsic value, e.g. book money, which at least seems to defy this classification principle. Moreover, and apart from this, it was demonstrated, that completely contrary experiences could be observed with one and the same money, made from a certain material, because from the same material wholly different kinds of money with completely different economic and legal effects can be produced. Thus, by means of this old

classification much confusion was caused. - The classification according to functions would certainly meet the nature of money more closely, however its functions do obviously depend on its physical, legal and economical configuration, i.e. in particular on its payment power (chapter 3), its rate, its issue and its reflux, (chapter 4) (J.Z.: in the last contents list available there is no chapter with such a title! - see the later chapter 3: "Two contrary theories of the State." - J.Z.) so that a classification according to functions should not define the kinds of money. Concerning the kinds of money the decisive thing is, that in the economy, especially today, there is not a homogeneous quantity of money on one side and a quantity of goods on the opposite side, like the primitives of today might imagine. The most diverse monetary phenomena, differentiated by their emergence and their disappearance, separated by enterprises, differently shaped, according to the "entities, enterprise and household (private and public ones) hook up with each other in a circular flow, face each other, are balanced and perform the equivalent to the goods cycle, without facing it in terms of quantities. - Therefore we will make the legal and business regulation of payment power, i.e. the acceptance, the basis of our classification. As will be shown later, upon it depends the "entrepreneurial" subdivision of the phenomena of money.

Therefore and first of all, our classification differentiates between tangible asset money (self worth money) and money without material asset value. The essential point in every economic phenomenon is the emergence of value and of prices. For both kinds of money these occur in completely different way. The price formation of "self worth money" takes place in the goods markets, since this money is firstly a commodity and it is traded as such in the goods markets. The last named money "without material value", in absence of all goods character, obtains its value in a different way: by its "acceptance", which will be discussed in more detail later, and of which very different kinds exist.

The usual simplification of monetary theory down to considering only one kind of money appears to be inadmissible; obviously and by no means can all monetary phenomena occurring today on the Earth's surface, not to mention the examples of monetary history, be explained by this primitive tool. It is a decisive task of monetary theory to explain, without difficulties, and at the same time, all the multiple monetary phenomena, split up by enterprises, of the present and the not so distant past. (Val. F. Wagner).

Firstly, we turn to self worth money.

§ 5. Self worth money

"Self worth money" is that money, which carries its value in itself, which thus derives its value from its secondary character that still exists besides. Naturally, the words "value in itself" do not mean that such a commodity value would develop without the existence of a supply and demand curve; rather, it develops straight by that, exactly like with other goods, although with a special curve shape, like that of hoarding and security accumulation goods (§ 3). In a more ostensive way, one could also speak of "metallic money"; however, then one would have the difficulty of exempting all change coins and other non-full-worth and non-valuationary coins. Because of this a special expression, "self worth money", is necessary. Self worth money is almost always metal money of full metal value; different kinds are out of the question for reasons of coinage-technique as well as because of the hoarding and security accumulation concepts of present mankind, except for remainders of present primitive cultures. Money minted from inferior "materials", e.g. silver, whose metal value remains below the nominal value of such a coin, is, as Rostowtzeff called it, a "metal Assignate", usually one could say government paper money printed on metal plates. It does not rank among self worth money. -

For money to be "self worth money", it has to be of full value, i.e. its metal content (fine, thus without base admixtures) must satisfy the coinage standard. If 1 g gold is the value standard unit, then the coin representing this unit must really contain 1g of fine gold and not less (it must be of full value). Self worth money (always full value) is thus defined by its precious metal content. In the definition, it is not important how much this quantity of precious metal is worth; important is exclusively its quantity. It is thus defined by the physical mass (g, kg, ounce etc.). The "rough weight" (including base admixtures) is irrelevant; its "fineness" is decisive.

Why can such pieces of metal serve as money, even as a value standard? Because they serve as hoarding and security accumulation objects (§ 3), not because of their usefulness as raw materials etc.. Usually, the criteria are irrational, which turn it into a hoarding commodity or fail to do so. Generally, it is a matter of people's deeply ingrained concepts, which are given with the entire cultural surroundings and which can be changed or methodically transformed hardly at all or only with difficulties:

There is a most general and natural demand for such self-worth-money with full value for security accumulation and payment purposes, as well as for industrial consumption and jewelry. With the general presence of self worth money the government, too, will gladly be ready to accept self worth money, since also the citizens will be ready to accept it in return as means of payment. The large mass of creditors will accept it in repayment of their claims. Also in immediate transactions of handing over goods upon payment one will be able to use it easily. It carries its value in itself, since it is valuable by itself, it is self-worth-money. When these value concepts are strengthened over historical periods lasting centuries, perhaps millennia, it will, generally, be the only standard of value. Thereby, it is actually only money in the sense of a means to express prices and to hoard. Thus it represents the value standard of a currency and has, at first, nothing to do with the goods side of the economy. From this, a superficial and modernistic view drew the conclusion that one could completely eliminate the merely "annoying" goods character of money and could switch over to valutory paper money. Still "more clever" authors and statesmen were of the opinion or practised it, to leave gold stand, for the "stupid masses", as a mere façade, but to take away from it every significance and to "tacitly" switch over to valutory paper money.

However, this is based on a misjudgment of the nature of self-worth-currencies, which require a much more thorough analysis. Self-worth-currency, as shown by the example of the full value gold money, would in this false view be merely a paper currency printed on gold plates. But that it is not. To the essence of the gold value standard currency belongs, quite indispensably, its twofold aspect, namely, that, on the one hand, it is the value standard of a currency, thus an accounting unit, in which commodity prices are formed and expressed. As such it is, at first, quite separated from every possibility of being a commodity itself, because, at first, its price cannot be expressed. For an identical equation $1 \text{ Lira (Mark, Tael, shilling etc.)} = n \text{ kg gold, or } n \text{ g gold} = n \text{ g gold}$, would not be helpful. Against itself one cannot measure any standard measure. On the other side, however, the goods character of self worth money does exist and remain. That is even decisive for the nature of self-worth-money! Here a feature is conclusive which has never as yet been described in the

theory of the gold value standard currency (1):

Indispensably, the gold standard currency, like all self worth currencies, needs a gold market.

The self-value of this money would be a pure assumption, perhaps one bequeathed from distant historical times, one that could never be proven to be true, if there were no competitive price formation of this hoarding good (usually gold and silver). Without price formation, and that means without public price formation in as perfect a market as possible, no value at all can, without doubt, exist generally, in the long run. It is precisely the market price formation that is the open and unvarnished answer to all questions and doubts of the mistrustful! A continuously doubted value, however, will, one day, become a reduced value, if it cannot manifest itself again and again, undiminished, by means of purchase prices fully paid in cash. Therefore, for a gold or silver value standard currency, where hoarding and security accumulation plays a crucial role, a functioning gold or silver market is an absolute precondition for their successful operation.

Now it seems that a market in gold is not possible, if the gold units would have to be measured, i.e. traded, in gold units. Then and obviously, the gold price of 1 g would always turn out to be = 1 g gold, thus the above-mentioned identical equation would result. Thus a device is necessary, to constitute the gold market as an exception of all market and price events of a country: a special market is established, in which prices are not determined in gold units, but in units of a particular other means of payment or several other currencies. Thus the prices e.g. in a gold market to be established today in Germany could be denominated in the usual (valutary) D-mark notes of the German central bank (the "Bank Deutscher Laender"). On the Paris gold market they are likewise determined in valutary notes of the Bank of France, accordingly in England in Bank of England notes. Here, it is not decisive, that those monetary units are valutary, in which the gold price is noted. They can be just as well of an accessory nature (optional, refusable, discountable, market rated and compertitive note issues), thus only means of payment, and not the value standard units of the main currency.

Thus a third feature arises. The gold market artificially created in such a "free port zone" (it only needs to be a room in the stock exchange building or a table in a Café

(1) Except the author in the "Das andere System", 1932, Page

or regular telephone connections, as in Tanger), in which gold is not value standard of the currency, but is a commodity, is, nevertheless, not a commodity market. For this market is artificial and does not trade in the national currency. But it is much more than that and provides much more valuable services: It daily states the value (the rate) of the various kinds of paper means of payment circulating in the country besides gold. It is even better, still, when the determination of the price of gold is not only made in one currency, but in all important domestic and foreign countries' monies, that do turnovers. If gold coins have an agio (extra value in comparison) of 10 % in DM notes, and they are thus noted with 1,10 DM, then the DM note has a Disagio (discount rate) of $1/1.10 = 9.0909... \% =$ about 9.1 % against gold.

Thus, by a simple reciprocal reversal of its rates, the gold market forms a gold rate for paper monies. Only through this does the gold standard currency become perfected and classified as more efficient compared to paper value standards. A currency value standard which, by daily public price formation allows everyone control over the value of the paper means of payment used by him, and whose intrinsic value has been relatively stable for centuries, must inspire a quite different trust in its security and thus in its liquidity and security accumulation suitability than a paper value standard currency subject to uncontrollable and generally unnoticed influences and, unfortunately often connived the insufficiently informed or stupid people.

The problem of a separate special gold market, disconnected from the currency area, offers, naturally, juridical difficulties, too. The absence of its theoretical preparation may have contributed to the critical situation of the gold standard in the present time. An added economical factor was that the connections between gold, publicity, hoarding and security accumulation quality and the necessary critique of paper means of payment, all of which are depending upon a free gold market, were not clearly seen, but only somewhat suspected.

Naturally, an ongoing critique is necessary for all paper monies; since they are, to a special degree, merely human creations. Precisely here lies the politically decisive "weakness" of the gold standard with a free gold market: It subjects the presidents of the note-issuing banks to such a merciless control and uncovers deficiencies of the State's finance, also of the business conduct of the mostly supervising Ministers of Finance, so ruthlessly, that a kind of "International League of Finance Ministers and of Presidents of Central Banks of Issue" was formed with a tendency against the gold standard currency.

It is too comfortable to be able to dispose of public funds uncontrolled, it is too pleasant to be able to violate, with immunity, even certain beginner's rules of note issue banking. Why subordinate oneself to such strict controls by means of an objective market? For these people it is better to just propagandize a free-market economy while preventing it in their own circles, and not to permit a free gold market.

A further question is whether self-worth-money should always be given impossibility at par value. Does self-worth-money, thus e.g. the gold coin, owe its value to some "chartality" (Its special legal charter), to the "national legal order"? This impossibility is not necessary, as long as a free gold market is present, because this does prove, every day, the free acceptance of gold and gold coins. Under the gold standard most national laws gave certain coins impossibility, that is, the character of legal tender. That is a superfluum, a policy measure that is redundant. However, such a measure can be appropriate, when thereby certain types of coins shall be promoted in general circulation, in order to drive out the many varieties of historical coins and sorts and to facilitate circulation and control among the public. There are also self-worth-coins, which are not legally imposable, e.g. the Maria Theresia Thaler, today still one of the most important currencies around the border countries of the gulf of Aden. Although impossibility might appear favorable in terms of technical coinage, nevertheless it has the disadvantage that by means of it and under certain circumstances the issue of inferior coins by governments is facilitated and they can thus be brought into circulation.

It is also important to mention that the self-worth-currency is the only one, which immediately introduces itself, quite automatically, when it is no longer forbidden. All other currencies must be "introduced" by complicated legislation. The gold standard carries its superiority in itself. Once the prohibitions against it are abolished, then there it is. The pseudo-doubts advanced against it, e.g. where should the gold come from, how much "foreign exchange" that would cost etc., do not really exist. When the prohibitions are repealed, then, at first, some merchants, then some people looking for capital and investors will privately agree upon contracts determined in gold value units. Gold is traded everywhere freely e.g. for industrial, dental and chemical purposes, despite all prohibitions, also in the USA, Russia,

England and on the continent. When even the remaining prohibitions are repealed, then, upon the thus arising exchange rates against gold the conversions of gold weight- or coinage units into respective national currency can easily be managed. Thus we have the gold reckoning (or gold-accounting) standard, and this is what a gold standard means, since prices and contracts will soon be generally expressed in gold value units. The question, whether the obligations concluded in such a way are to be dissolved in this or that means of payment, or cleared (offset, balanced against each other etc.) is not a question of currency value standards, but a question of payment and clearing.

It is probably unnecessary to come to speak about a "form" of gold standard, which, really, is not any one: Retention of the gold standard by law and simultaneous prohibition of gold possession and gold trade by other laws. In this case gold is no longer imposable, legally not at all vendible any more, and is thus no longer a value standard. The obligatory "delivery" of one's gold to the respective state, practically always at prices below the free market price, can not be regarded as a substitute for free sales. It rather constitutes a part-expropriation. The seeming maintenance of the gold standard, often going hand in hand with that practice, is only a deceptive maneuver.

Particularly from the view of the gold standard and of the gold market it follows that a purely quantifying mathematical theory can merely investigate only few, disconnected and not even substantial characteristics of money. Morgenstern's theory of games and behaviors, to which we subscribe, without following Morgenstern completely, has other possibilities. The concepts of bluff and deception, e.g. by the management of the note-issuing bank, or other organs of the State, when an exchange rate control through the market "threatens", are everyday phenomena, which are not quantitatively determinable. The reply that I always get "... that they are not allowed to do!" does not do justice to the facts. Monetary affairs deal with the playing and fighting of individual entrepreneurs and of whole payment communities with others, where all methods of fairness and cheating, of trading and crediting, but also of fraud and deception are applied. The scientific understanding of these phenomena is impossible as long as one assumes that all of them are to be understood, exclusively, as physical streams of a uniform and quantitative money supply.

(Here Rittershausen inserted 2 sheets, the first being only one section, not numbered and overwritten: "§ 7 a The money material." and the second, Page no. 20, followed it. - J.Z.)

Note to § 5: The material of money

An isolated function of money, the transmission function, by whose exclusive presence, however, money is not yet established, can be replaced by accounting transactions, i.e. by transfers of credits, and by set-off, i.e. by a special treatment of debts.

Apart from this case, which does not concern all of money, but only one part of its functions, money remains a visible concrete object, so that an objective definition should be possible. That agrees with common language usage, which would not call deposits money, while, for instance, deposits (or storage) of suit-cases in a baggage room or stock deposits (placements in bank vaults, for safe keeping) would contain real suit-cases and real stocks. Consequently, discussing the material of money is important. (J.Z.: in the last two sentences Rittershausen placed a question mark above "deposits" and a "not" in the first sentence and scratched out the word "consequently". His final version can be seen only in the original dictation in the Cologne university library. - My photocopy of it got lost in the mail. - J.Z., 27. 2. 05.)

The substrate of money is first and always a hoarding commodity; this is subject, as discussed, to special economic laws. It is either not at all or only secondarily a consumption good or production raw material; it can be a valuable (noble, precious) or worthless material or a goods warrant or service voucher.

a. Practically only the two precious metals, gold and silver, come into the question as valuable money materials. At their full metal value, they serve for the production of all three kinds of money: Self-worth-money, fixed rate money (metal weight units given legal tender power) and of market rate money; below full metal value, they serve as substrates for fixed rate money (legal tender, forced rate currency) and market rate money.

b. The remaining metals and other material goods are used only as fixed rate money and market price money; in particular copper, nickel, bronze and its alloys, iron, zinc, aluminum, leathers and porcelain are usable.

c. Finally, in very much varied ways, paper is used for the production of money. We do not recognize fixed rate money made of paper as debt documents, in spite of its IOU-like aspect, but as the carrier of a compulsory value created by the State, as a "governmental value". With free market rated money made of paper and also out of base metals (b) we have goods warrants etc., which are cashier certificates (bearer instruments) embodying claims against a central

office. Transmission takes place like with material money, by means of agreement and delivery; the holder is the owner.

d. Account credits do also serve as money to a large degree, without being money. When they have general compulsory acceptance (i.e. when they are fixed rate money) (forced rate money, fiat money, legal tender money), they are government account credits, i.e. artificial & compulsory values "created" by government, without any character as claims. If they are subject to market rating, then they are claims against a central office. Their transmission is done in both cases via book entries.

§ 6. Redemption money

There are three methods to provide paper with value; paper, whose material is worthless and which has a document printed on it:

1. By promising to redeem it at any time in different money, e.g. self worth money and to actually carry out this redemption. For the rest, such money requires no skillful handling. The paper has value as long as redemption continues and at the rate in which it is redeemed.

2. By promising interest payments. That is the case with the so-called fixed interest securities. As long as the interest paid is approximately as high as the national interest rate, the paper will not deviate much from par. However for the rest and due to the change of supply and demand, it will be subject to sometimes larger sometimes smaller exchange rate fluctuations. Such a paper will hardly be useful as money, because the appending coupons are cut off only after considerable periods. Therefore such papers with coupons cannot circulate at their nominal value. Each change of ownership requires a complicated capital and interest calculation. Further, to achieve the seemingly so simple agreement of its nominal interest rate with the national interest rate is very difficult in practice, so that its daily rate deviates from this parity, mostly substantially.

3. A still further way to make an in itself worthless document suitable for circulation like money is to arrange for an enterprise with very large cash transactions to always accept this money at full nominal value or to induce an entire population to accept such notes, voluntarily and out of self-interest. Finally, governmental compulsion could be used to enforce the acceptance of the document at its nominal value.

There is nothing further to be said about the redemption money dealt with first. Interest-bearing money, mentioned under 2, occurred with us during the last few years only in the form of tax credit certificates, not discussed here, but which are in use in the United States of America,

too. Of the monies mentioned under 3, whose value is based on acceptance; the last named will interest us now: that is, money given a nominal value for every subject through State command.

§ 7. Fixed rate money

The general voluntary acknowledgment of the value of material assets by means of a constantly forming public opinion, going back at best thousands of years, concretized in a demand and a market price formation, which characterizes like real value money, can be replaced by governmental command. This becomes necessary when the commodities have no inherent and corresponding value, but are, essentially, worthless, e.g. paper. When government legally orders general compulsory acceptance at nominal value, then an absolute value is made from a money material or money deposit, no matter how valuable or worthless it was before. This is done by government command, exactly as if one had taken a piece of gold from the soil. Indeed, now and then one has compared banks of issue with gold mines, not quite incorrectly.

By general compulsory acceptance at nominal value, which creates fixed rate money, usually still called fiat money, forced currency or legal tender paper money in the older terms, acceptance and that at the rate of 100 % (fixed rate) are prescribed, under threat of penalties, for everyone trading in a government's territory. Therefore, a disagio or agio (market-rate) of such money does not exist; all market rating is made impossible. It is similar to a legally fixed price for a commodity, intensified by legally prescribed compulsory purchase.

Since the State also subjects itself to general compulsory acceptance, such money of a forced absolute (fiat or fictitious) value can easily be used for payments to the government, too. Since everyone must accept legal tender money (compulsory acceptance and compulsory value [rate]), it easily finds also use for centrifugal payments, in particular from the treasury to the citizens, as means of payment in dissolving debts, for cash purchases and the granting of credits.

A debt- or credit relation does not exist for fiat or legal tender money or forced currency (fixed rate money), but, rather, a government's creation of value of its own kind, limited in time. A piece of fixed rate money does, indeed, look exactly the same as a credit document and is also wrongly allocated to the chapter "national credit" of public finance and government budget; but it is a non-credit, governmental and absolute creation of value. The commentary to the banking law, famous in Europe, of the two Reichsbank presidents Dr. R. Koch and Dr. H. Schacht says, correctly, on § 3 of the Bank Act of August 30th, 1924:

"The banknotes are denominated in Reichsmarks. ... The Reichsbanknotes are, apart from Reichs gold coins, the only unrestricted legal tender means of payment in Germany. ..."

The comment to that says:

"After legislation, on August 4th, 1914, had seen itself forced to waive the obligation of the Reichsbank to redeem its notes, until further notice, no claim at all remained any longer and thus exists out of the notes against the Reichsbank. (1) (This footnote is missing! - J.Z.)

By the way, according to the purpose of the law of August 4th, 1914, one would have arrived at the same conclusion if bearer bonds were presumed to exist, because this purpose of this law was to remove – for the period of the validity of this law – all claims against the Reichsbank and it had to have this purpose.

The character of the Reichsbanknotes, as mere money tokens, is expressed by the new banknotes, denominated in Reichsmark, by putting in the place of the old redemption promise, that has been deprived, by the law, of its contents, a mere value declaration:

Reichsbanknote **Ten** Reichsmark.

Issued upon the Bank Act of August 30th, 1924.

Berlin, October 11th, 1924.

Board of Directors of the Reichsbank.

From a document with such content no private obligation to pay can be deduced from civil law.

According to this the §§ 793 BGB et sequ. about bearer bonds do not apply to the legal position of Reichsbanknotes, but, instead, the legal statements on money. Thus, after § 31 of the new banking law came into effect, the Reichsbank had to redeem a note, even if it was stolen from her, lost or circulated otherwise without her consent. For the justification of this legal effect it is neither necessary nor possible to refer to § 794 BGB ..."

This commentary, which was authoritatively applied in Germany for a long time, appropriately demonstrates, not what is generally valid for "money" but merely what applies to legal tender money alone (fixed rate money), which one had introduced after Germany has not known compulsory acceptance and legal tender for paper money from 1809 to 1909. The measures of

1909, which had become effective on January 1st, 1910, and which gave legal tender payment power to Reichsbanknotes, thus making them imposable, were, explicitly, a measure of economic mobilization in case of war, and had been regarded as such. Under the influence of the new simplifying and quantifying monetary theory, the new and cataclysmically important measure of the final perpetuation of compulsory acceptance was hardly noticed by the public. It is correct that fixed rate money does not have the character of a debt-obligation. A conjuring trick takes place with its issuance: A debt is converted into money, into an asset, by a stroke of the pen of the legislators. This is not a mobilization of claims, as is the case, for instance, with bills of exchange, but this is the legalized transformation of a balance liability into a pretended and legalized asset (fiat money or legal tender paper money). Since, however, credit relations do not exist for this kind of money, the terms of set-off and clearing and the terms of all non-cash transactions should only be applied with caution.

The commentator forgot one thing: Such notes may not be simply listed in a balance on the side of the liabilities. When they are not debts, then they cannot be rightly treated as passiva, for non-existing debts do not belong into a balance sheet.

Thus we get down to the real phenomenon: The government "coins" its budget deficit into asset values, into fixed rate (legal tender) notes, with which it pays, in this form of "cash", all those, who must accept its artificially made (fictitious & forced value) "assets". The central note-issuing bank receives these notes or the right to issue them from the government, thus it probably owes their return or the counter-value to the government. Consequently, in case of legal tender paper money (fixed rate money), into the balance sheet of the central note-issuing bank not the "note circulation" should be placed but, rather, the item: "debt owed to the State". If this debt to the government, which we know from the similarly constructed Bank of England (formerly an association of government creditors!), is not admitted, then the government gave away these rights or donated (lent) a corresponding privilege to this bank, and this item ranks then among the bank's own capital assets. Then, the amount of its note circulation would have to be indicated in its business report.

The interrelationships between fixed rate (legal tender) money and the government's budget deficit require still closer explanation. On Nov. 9th, 1944, the author produced the following writ about that and sent it to a considerable circle of acquaintances. It is here reproduced:

There are two theories of government deficits.

The one is the theory of free price and rate formations in commodities and stock markets to achieve a comprehensive equilibrium between supply and demand in a national economy. This view includes the recognition of the inviolability of individuality and of property rights.

Second there is the theory of compulsory price and rate formation; it includes the theory of the total state.

In the one case passing on the government's deficit to the citizens is impossible, except by taxes and loans, in the other case it is made possible: The paper money, issued by the government, receives compulsory acceptance and value by it, is turned into value standard currency, measure of all commodity prices and self value of its own kind as gold. With this "substitute gold" government fills the pockets of its citizens, the liquid assets of its companies, the investments of the large capital reservoirs etc. just like with a compulsory loan, which is a tax. Then government uses further means of coercion in shape of quantitative economic controls (centrally planned and directed economies, including compulsory licensing, quotas and price controls.). By such means its kind of "gold substitute" can be imposed everywhere. While the State's bankruptcy is thus avoided, its subjects are turned into paupers.

In the one case, limitation of the state to its only legal means of economic coercion, taxes (for some centuries even this was not sanctioned), in the other case expansion of means of coercion: Compulsory acceptance of an often unwanted and illusory (or false pretence) value, to achieve acceptance of a non-value at its nominal value, coercion in formation of rates and prices, always contrary to market forces.

Question: Does a limited or a comprehensive coercion achieve more?

In the science of public finance the question of government deficits boils down to the problem of the size and effectiveness of taxes (in both systems this means of coercion is inherent!), and further still to the questions of tax resistance, refusals to buy government bonds, evasion of price controls, and other indirect responses to inflation (e.g. less work, delivery strike by farmers, commodities becoming invisible in shops). When these four kinds of resistance are as highly developed, as today in

Germany, then, quite simply fiscal productiveness of comprehensive coercion seems to me to be smaller than the revenue from limited coercion.

In psychology, not material aspects alone govern and their sheer mass. Already a view into the science of education proves that much coercion (too much compulsion) does often achieve less than little force. Nevertheless, short-sighted parents tend towards the first option just like the military. But what a tremendous disproportion between expense and results! In other countries and in other historical epochs, different solutions are possible depending upon the status of the four resistance types. However, just like in educational science, I do not believe in the efficiency, in the long run, of extended compulsion.

Example: The increase of German note circulation in 1943 by 12 billion RM represented the genuine government deficit. In my opinion, it would have been possible to cover it, easily, by trebling the railway ticket prices for persons, and those for alcohol -, tobacco -, and cinemas, etc., all in favor of the treasury. In my opinion, such a small amount as the genuine deficit can always be raised by taxes. And if one absolutely wanted to leave the governing under class tax-free, then one may tax the rich at 100 %, or just those, who are too much affected by forced currencies (legal tender paper monies with compulsory acceptance and fiat value).

Prior to 1940, the genuine deficit in Germany per year was never more than 3 billion RM, with budget amounts of 50 to 100 billion! (Note: In contrast to the 7 billion RM budget amount under Bruening in 1932).

But the totalitarian idea requires going beyond the limitation to taxes as means of coercion and the use of more comprehensive means of coercion; thus, fiscally, it requires the exclusive and forced paper currency, the "labor standard", thus the forced acceptance and compulsory value (legal tender money) and controlled prices and rates, also in the markets for banknotes.

Thus, the theory of free market rating is not a useless mental exercise, not a fad, but, of necessity, belongs to that part of mankind's philosophy and of the science of constitutionalism previously spoken about. In economic science, these great teachings cannot be fully developed to their ends without the market rate theory or competitive rate theory of money. (1) (footnote missing) There are no hybrids. There is no such thing as half-honesty. On this I did already state that, in the long run, honesty can achieve the best business.

The theory of government deficits and of fixed rate money (forced acceptance and compulsory value or legal tender money) thus is part and parcel of the modern and statist theory

of the state. Ultimately, its practice is established by the present constitutions of states and of economic systems.

To this, even today, nothing has to be added.

§ 8. Market rate money

There is not only money, whose value is based on the precious metal used (self worth money) or on governmental command (fixed rate money, forced currency or legal tender money), but also a kind of money, which does not require either of these powers or privileges but which, nevertheless, has value: market rate money. The participants in economic exchanges accept money not only upon governmental command, but also when their own interest forces them to do so; when they acquire this money gladly, also for liquidity purposes. Such an interest is present when demand exists for this kind of money, since demand facing a moderate supply creates value, and everyone gladly hunts values, when a large market exists: A value is taken, is "accepted".

But how does one create a demand for a certain kind of money? Demand for a certain kind of money can be produced only by those, who issue that money or want to issue it. The issuer must create usability options for his money. Perhaps he must accomplish a "circular" flow of this money. Especially he must state what shall happen with it at the end of its circulation. Obviously, his money may reach this end at any moment, namely always when there is nobody else accepting this money without distrust, or who regards the possession of this money as useful for himself.

In his task to create a demand for the money to be issued by him, and thus to induce other people to acquire it, the issuer must, obviously, remember the clearing function of money: He must issue this money as a mobilized and securitized claim into circulation, so to speak, he must sell it; he must find businessmen, who need such claims in forms of clearing certificates or notes, in order to settle claims placed by third parties against them. But the most important point is: right from the start, the issuer must cover the circulated and secured or self-insured claim by an accompanying or parallel second claim, so that the securitized claim can be expired or withdrawn at any time by clearing them against that other claim. Only then is it, obviously, guaranteed, that this piece of money, the note, at any moment, in which it becomes otherwise unusable, has still, as its last utilization, the clearing against that other claim, the process by which it dissolves into nothing.

It is much easier than it appears at first, to solve this task, so far described only theoretically, in the banking and financial practice.

This can be done in several and different ways. It has been solved in history and in the most diverse countries in various ways. An especially famous method, which was invented in China and later by the Scottish issuing banks, is the following:

The issuer delivers the new money, claims securitized as notes, only on loan, and has the receiver promise him repayment. Through the repayment promise the bank still has, firstly against the receiver of that promissory note, a claim to the amount embodied in that note. Quite exceptionally, under repayment of this debt here not a repayment in the usual national currency is meant but, instead, the return of notes of the same kind, to the same amount and of the same bank of issue. Further, the issuer insists in his loan contract that the other party, now called debtor or "credit recipient", may use the "money", so received, only for wage payments and other current expenditures. Moreover, his enterprise must be exclusively productive, i.e. it must be dedicated to produce goods and offer services and these must be of a proven quality.

Furthermore, the bank selected the recipient for its credit exactly because he manufactures consumer goods, which are usually bought within the next 3 months and are paid for in cash; i.e. consumer goods which, by way of a wholesaler go to the retail trade, both run by experienced people and whose customers are habituated to cash payments.

Only under all these conditions can that task be solved:

The credit user puts the notes into the wage packets of his workers. With these notes, these earners buy their lives' needs in the retail shops.

The bank did not only give such a credit to a single manufacturer of a certain branch of industry, but it provided, at the same time, very many other such credits, under the same conditions, to productive firms in other industries. All the workers buy for their wages is manufactured by those producers and distributed via wholesalers and retail traders, to whom the money of the workers then flows. The retailers use the money earned, in order to pay their bills with the wholesale dealers, and these use it, to pay their bills with the manufacturers. In the meantime, the credit period has expired, for which the bank had given its notes on loans to the manufacturers. We assume that the bank had contracted the repayment in her kinds of notes only. The producing companies pay back their credits by returning the notes received to the bank. There these returned banknotes, also embodying a claim, are set off (balanced, cleared) against the original short-term debt certificate or IOU of the producer, which served as the basis for the loan of the banknotes to him.

But what can an issuer offer to the producers of commodities, in order to win them over to the proposition to acquire such embodied claims on loan?

The issuing bank offers certification (securitization), typification in small and round amounts, breaking up the large and uneven IOU of the employer into easily transferable pieces, and its own guaranty, by which the soundness of the so certified claims in small denominations becomes apparent. All inhabitants of the country know that bank; but only a small part of the inhabitants knows the individual producing company. Only the claim document guaranteed by the bank is unquestionably good and can, therefore, pass easily from hand to hand.

One can also explain this subject otherwise: In commercial life of the past one used to pay with bills of exchange, which the creditor (supplier) drew upon his customers. He had sold commodities to them. Although they were not guaranteed, these bills had an easy circulation among experienced merchants, who well knew the companies involved and, therefore, they were accepted like money.

The transition from barter economy of the middle Ages, when workers were journeymen, who were fed at their masters' tables, to the modern factory system with foreign workers on wage rates raised a problem unsolvable for that bill circulation: Wages had to be paid. But wages could not be paid in bills, because the bills usually bore large and unsuitable amounts, and because the workers could not test the soundness of the drawn-upon companies. What did those early note-issuing banks do? To use the expression of an intelligent farmer, they exchanged usual large bills for chopped-up bills. They accepted from their customers their bills and returned to them typified and guaranteed "chopped" pieces to the same amount. Here we want to ignore interest or discount rate calculation. These chopped bills, these "banknotes", were usable also in small transactions and for wage payments, just like money. Thus, the bank issued a new kind of money in place of the bills submitted to it for its discount. As one said, finally, it issued bills (scrip, today called banknotes), and discounted with them the bills of exchange it accepted.

The task was fulfilled: Money was being issued only by way of credit, so that in the end there is a claim, by which the issued money notes become extinguished; a cycle (temporary circulation or oscillation)

is achieved, so that, normally, it remains en-route for a number of days, weeks or months. By typification and insurance, an incentive is given to the borrower to undertake such business in the first place; and in the end, set-off provides for the removal of the issued claims. Another term was created at that time and for that process, namely "reflux" (Fullarton) In what does consist the demand which we initially found out to be the active factor giving a value to such a piece of paper, in itself worthless? The demand consists of the claim of the bank against the credit user to return a same amount in the same kind of notes.

Obviously, the strength of the demand for this security depends on the credit term granted to the customer as well as upon the energy of the debt collection measures, upon the severity of enforcement laws for debts valid in a country and on the quality of a debtor's morality. If the credit term is 10 years, and when juridical security and honesty among debtors prevails, then, foreseeably, no debtor will show a demand for this paper before, say, 9 years are over. Thus, for a period of 9 years, the debtor sees no necessity to obtain or exert a demand for such paper-notes in order to return them to the issuing bank. If we turn from the extreme of a very long, here a 10 year-period to the shorter period of one year, then, for a period of, probably, still 11 months, no demand for this paper will prevail. The consequence of that would be that the current holders of such notes do not find anybody, for months, who is ready to accept them. At the time of the great economic crisis, in different countries, e.g. in Austria, Schleswig-Holstein and in Canada, such notes were actually issued by associations of unemployed, for terms of one year or even several years. The retail shop owners even accepted them, experimentally. The wholesale dealers and manufacturers, however, were not ready to supply commodities in exchange for them, because no ready usability or acceptance options existed for these papers. Whoever produces and supplies commodities needs fast payments and cannot wait 11 months or even several years. But the acceptance of such papers inevitably meant such long waiting periods.

If, now, we consider the credit period reduced to 2 months, which does already correspond more to the customary bank conditions, and if we assume that the credit business of the issuing bank

is operated day by day anew with very numerous companies of most diverse branches of industry, so that daily hundreds of claims become due and credits also continue to be given again and again, while all such due debts must be paid back in the same type of notes, then a large and regular demand does obviously develop at the issuing bank:

Every day numerous retailers, many wholesalers, a lot of middlemen and entrepreneurs of all kinds will have to deliver such notes to the bank. The bank accepts all its notes at its counters just as if it received national currency. As soon as the population gets accustomed to this condition, this money will have an easy circulation in that region, although it has neither compulsory acceptance at its nominal value in general circulation, nor is it valutary. It is merely accepted daily at the bank's counters. As mentioned, the secret of this circulation is not the issuance of the money. Every fool could do that, if he is given the possibility. Rather, the secret of its continuing value preservation in circulation is the generation of regular demand for sufficient amounts of it, a certain size and mass-volume of the turnovers at the cashiers of the issuing centre.

To make it fully clear: The size of the demand depends, as mentioned, upon the credit term's length and the prevailing debtor morale. If debtor morale is good, then it depends only on the credit period.

Let us think about the extreme case, a credit term reduced to one day or one hour. Obviously, the debtor, who must unconditionally pay within one hour, and whose enterprise would, otherwise, be punished with death by bankruptcy, will go to any lengths to find those notes in natura by hasty demand towards his business associates, one of the greatest urgency, in order to return them in time. A security document, which is as urgently in demand, can, obviously, not fall under a rate of 100 %. Even an agio or premium could be attained by it, thus could be rated at over 100 %.

One the other hand, coming back to those long-term notes of the unemployed: At a national interest rate of 5 %, one will probably not be able to evaluate a non-interest-bearing 10 year term paper, at present, with more than with 40 % of its nominal value. Such a paper would have thus a disagio (discount) of 60 %.

One-year notes, too, when not bearing interest, would probably still have a discount-rate. It cannot be computationally predicted at which credit period the notes will reach their par value, since the data required for that cannot be known in advance. The issuing bank is thus dependent upon its experiences.

One cannot require now that the public, which avails itself of the notes, puts blind trust into the skills of the bank. Rather, one must provide a measuring method to its customers, which emits a warning signal, when that saturation point of circulation is exceeded: This measuring instrument is the daily market rate notice for such notes, which must be published. Once this rate decreases, even if by only a fraction of one per cent, then the management of the bank knows that it must shorten credit terms or stop lending to insolvent customers who do not at all or only badly keep up with the credit terms agreed upon. By the rate falling, the public and the debtors of the bank obtain the opportunity to buy up the cheaper notes, spending other kinds of money for this, in order to pay back their bank debts below their nominal amounts. Thus an incentive is created for the acquisition of these notes, as long, as there is still a chance to preserve the solvency of the bank at all. In an extreme example, despite strong decline in the exchange rate of the Reichsmark, foreign debtors of German Reichsmark-credits and speculators, who believed in the security of the Reichsbank, bought up stocks of Reichsmark notes, during the years 1919 - 1922, probably to the amount of over 10 billion RM, expecting to be able to present them one day for the repayment of their debts to this bank and that at their restored nominal value.

The circulation of Scottish type "market rate money", as just described, is not the only method to successfully issue such money and to preserve its value. All cash counters with large public traffic can issue such money, if, otherwise it is suitably adapted to its particular conditions. Suitable are e.g. the pay offices of railway stations (freight traffic and railway tickets) of larger railway companies, a possibility which Friedrich List demonstrated successfully. Large goods- and department stores, chambers of commerce and all of their associated firms might resolve to accept such notes, as well as their own; and, in particular, large national tax and finance offices. All these institutions must circulate the money, which they

want to issue by paying for their purchases with it, paying wages and other current expenditures in this way, and they must be ready to accept it at their cashiers for delivery of their goods or services, just like any other money.

Since the tax offices have no or no visible services to sell, one can imagine for this case that they are dealers in tax receipts. Their money can then, at any time be paid to the tax offices for tax receipts. One calls this kind of money state paper money.

Between 1807 and 1923 there were, e.g. in Germany, always several kinds of state paper money. The notes of the Rentenbank, too, which were put into circulation after 1923, which had, likewise, no compulsory acceptance and circulated until 1938, can be regarded as state paper money. However, here one should take note that, apart from such non-typical paper money with market rates, thus subjected to free rate formation, there is also still the real state paper money equipped with forced acceptance and a compulsory nominal value (legal tender paper money or forced currency), which must be counted among the species of fixed rate money.

One could object against the demand theory for market rate money that those notes were valuable not through the demand for them but by their metallic redemption. That would be correct if there were not numerous cases, where these notes kept their value even once their metallic redemption was repealed. There are even cases where no metallic redemption was ever promised, e.g. the notes of the German Rentenbank of 1923, which circulated at par value for more than 15 years without any trouble, even during the two severe crises of that time. Such facts cannot be made to agree with the theory of metallic redemption alone.

Seen economically, market rate money is clearing scrip, thus a paper which, by its guaranteed public faith, embodies a mobilized claim, which can be offered for clearing at any time. It does not require further or prior intervention of the banking organization or the personal appearance of the creditor standing behind the claim. Although this market rate money is pushed out, everywhere, in the present world epoch, at least touched by governmental totalitarianism, it does, nevertheless, play a very large role, even today, in numerous countries; and, because of its excellent characteristics, it has the power to perform at any time the whole of the physically embodied clearing transactions,

i.e. that part of all payment and clearing transactions, which, because of its anonymity, cannot manage without an embodying document.

This money has its term market rate money derived from the fact that, apart from the actual interest in it, because of a general demand for it, nobody is legally forced to accept it and, especially not at a prescribed rate, except the issuer himself. While those who accept or receive fixed rate (legal tender) money below or above its par value are liable to punishment by the State, everyone must have the right to sell or buy market rate money below or above par value, since complete freedom of rate formation belongs to its essential nature. The trust in it is based precisely upon the free trade in this sort of money. And this, again is the expression of the natural demand for it, for buying with it retail goods in the shops, to pay railway freight costs (in case of railway money) or for paying taxes and tariffs.

While the fixed rate money (forced currency or legal tender paper money) represents a mobilized debt, which, by governmental order, was transformed into an asset/activa position, not in the hands of the claim holder, but, surprisingly, in the hands of the debtor himself (the government), market rate money always embodies a claim, thus an asset/activa position. Either it is a commercial proceeds claim from commodity sales sold by the supplier, or, originally, a tax claim of the government which is already due, or a railway freight claim, to keep with these main examples of the present time, including in all cases the typification and insurances aspects being included.

If market rate money, besides, is still redeemable in a precious metal, then these claims can be used not only for clearing, but they can also be made due for metallic redemption by presenting them to the issuer. If it is not thus redeemable, then it represents a "coupon" (a goods warrant, purchasing certificate, service voucher etc.), that the issuer or his debtors must accept for set-off or for delivery of goods at their nominal value. Market rate money, seen in the private business economy of the single bank of issue constitutes a "quantity" which must be exactly measured and controlled. Seen from the perspective of political economics, it amounts to set-off without any inherent quantity limitations. Its importance lies in the fact that, like all successful clearing procedures, it can remain in circulation only during the set-off procedures or as a means for hoarding.

Market rated notes that are, somehow, put excessively into circulation, do almost immediately attain a discount (disagio), and thus they stream back to the only acceptor, who continues to accept them at 100 %, that is the issuer. Thereby they disappear from circulation. Consequently, a pushing up of the general price level in case of such over-issues is not possible with market rated money, whereas this is the rule with fixed rate (legal tender or forced currency) money.

(J.Z.: Rittershausen saved fragments of the prior page 16b, later 57, then 63. The following section is part of that; he characterized it as belonging to paragraph 8:

"Market rate money must be accepted at the acceptance rate (mostly its nominal value), only by its issuer. In general circulation it may stand below par and is freely traded, according to its rate. That is in contrast to fixed rate money (compulsory value money), which must be accepted at par by everyone, not only by its issuer; due to the penalties imposed. Thus a free trade with it and a public discount of it becomes impossible. Instead, if abused, fixed rate money can be repudiated, i.e. the owners of goods would decline to accept it as a means of payment for purchases and it would become worthless, by their declaration that they would not possess the desired commodities.

(J.Z.: from an earlier draft Rittershausen kept still another half page with the following text):

"to shop owners or cashiers with large public traffic (railway ticket offices, department stores etc..) for the payment of bills of third parties. These will further circulate it; since the holders of this money know or soon learn that they can use it for purchases in shops and department stores or at the ticket counters or at the freight offices. Or the issuing bank lends it to producers and commodity traders, who sold commodities, so that, in the end, the issued notes help to buy those commodities from the last seller, whose first sale was financed by their issue in the discount business. In a third case, governmental or communal institutions, which have large tax or rate incomes, can issue this kind of money. In these cases the taxed population is given the right to at least pay their taxes with it, although not the right to purchase with it any consumer goods.

The value of market rate money is always based on the fact that someone, i.e. a cash counter with a large turnover, does accept this money (acceptance foundation). Usually, acceptance takes place at its nominal value. But it can also take place at any value below or above it (acceptance rate). However, this rate must be kept continuously. The canteen money of the German armed forces, for example, during world war II was accepted at 10 times of its nominal value in the canteens for the delivery of beer, cigarettes etc. and it also continued to circulate in the troop units with this full acceptance value (of, e.g. one Mark for a ten-Pfennig piece).

X continuation next page! Ad. Smith: ('If a prince ... ' ")

Quoted from: Adam Smith, An Inquiry Into the Nature and Causes of the Wealth of Nations, Great Books of the Western World edition, vol. 39, in chapter II "On Money ... ", page 142, on tax foundation money.

"A prince who should enact that a certain proportion of his taxes should be paid in a paper money of a certain kind might thereby give a certain value to this paper money, even though the term of its final discharge and redemption should depend altogether upon the will of the prince. If the bank which issued this paper was careful to keep the quantity of it always somewhat below what could easily be employed in this manner, the demand for it might be such as to make it even bear a premium, or sell for somewhat more in the market than the quantity of gold or silver currency for which it was issued. ..."

The previous paragraph, here also on page 142, runs:

"The paper of each colony being received in the payment of the provincial taxes, for the full value for which it had been issued, it necessarily derived from this use some additional value over and above what it could have had from the real or supposed distance of the term of its final discharge and redemption. This additional value was greater or less, according as the quantity of paper issued was more or less above what could be employed in the payment of the taxes of the particular colony which issued it. It was in all the colonies very much above what could be employed in this manner."

§ 9. Clearing (Set-off, balancing, skontration)

Money's principal feature in economy is clearing. This follows from the initial discussion of the payment and clearing function of money (§ 1). However, clearing presupposes personal acquaintance of those involved and absolute confidence in the claims presented. Its further development also requires a certain degree of organization, so that clearing is not directly applicable in certain cases. In such cases one helps oneself by certifying the claim, that one wants to clear, in a document whose recognition requires neither personal acquaintance, nor confidence, nor still another organization.

A further means to help oneself in such cases is the handing-over of self worth money, which carries its natural value in itself, or of papers which, by government command, had been given a nominal value realizable everywhere, although, by themselves, they do not have the characteristics of genuine claims.

One must not adopt the error, like an older monetary theory did, to regard the kinds of money treated so far as the primary money, the metallic money in form of pieces or certificates or notes, which stand opposite to clearing. Rather, all kinds of money serve the purpose of clearing: The self worth money and the fixed rate money, since clearable claims result by their delivery; the market-rated money, since, by the claim confirmed in it, clearing is offered and accomplished; redemption money, since entitlements to redemption confirmed in it and expressed in monetary units, are being made available for clearing.

It remains to briefly discuss whether the diverse forms of market rate money are always merely means of clearing: The Scottish banknotes can be regarded as clearing notes. According to English-American law they are kind of a bill of exchange. The signature of the issuing bank includes an acceptance, like it is well known in bills of exchange. Issuance is so arranged, that granted turnover credits are short term, so that, continuously receivables are due to the bank from their customers.

The notes themselves, as far as they are in circulation, contain claims of the holders against the bank. Their issuance is managed in such a way that, continuously and approximately just as many maturities occur of the bank against its customers as there are maturities of customers against the bank.

Consequently, set-off (clearing or balancing) is possible at any time for the mutually existing claims of opposite direction and equal size and maturity.

Clearing must take place at par, because the bank is obligated to accept its own notes at nominal value, just as the bill (of exchange) debtors have to pay the nominal value to the bank.

In detail there is a rather long chain of clearing steps:

The manufacturer owes his workers wages. His recipients owe him payment of invoices for sold commodities. The manufacturer mobilizes these claims on his recipients by drawing bills and having them discounted by the issuing bank, thus exchanging them, so to speak, for smaller, typified and standardized or "chopped-up bills of exchange" in money denominations.

By the manufacturer paying owed wages in banknotes to his workers, clearing of two opposing claims of equal size takes place. By the workers' buying goods in the shops, the shop owners acquire claims of equal size. They give the shop owner bank notes for clearing, which represent claims against the bank, and, thus, again, they offset or clear according to BGB § 387.

The shopkeeper owes the wholesaler for his invoice. He presents such banknotes and, thus, is setting off the claim contained in them for a second time. The manufacturer has to claim upon his invoice on the wholesaler, for goods sold to him. The wholesaler possesses the banknotes, which represents claims on the bank. Once again, both are setting off.

By the day of the bill's maturity the bank has a claim on the manufacturer; while the latter, having earned banknotes in the meantime, has a claim against the bank: both are setting off again according to § 387.

In each case and, according to law, both claims have expired at the moment of clearing. In this way all payments done with the Scottish type of banknotes can be understood as set-offs (or clearing transactions).

The same applies to the cycle of state paper money, which circulates under a free rate. The government has due claims on taxes not yet paid. It can or will not wait until these

claims are paid in by cash. So it embodies and typifies the claims on its taxpayers in such state paper money. Because of the size of this debt and the security of its payment no special guaranty is required. The suppliers and employees of the government have claims on it deriving from their supplies and services. The government, through its organs, hands those embodied fiscal claims over and both are setting off. The government suppliers and public servants do probably continue to buy in the retail shops. The shopkeeper thereby earns claims on the government. They hand over these claims of the government on its taxpayers, in this embodied form and are setting off. These businessmen and their subcontractors have to pay taxes. The government is demanding these taxes, and they are handing the state paper money over. One clears, once again.

Thus, by set-off, the claims of the government on the taxpayers are deleted, just as well as the claims of the state employees and suppliers against the government, are deleted through clearing, for, in the meantime, the state paper money (tax foundation money), had come into the hands of the taxpayers.

Probably these examples are sufficient to show that all payments effected by self worth money, redemption money, fixed rate and market rated money can be understood as set-off processes in the sense of § 387 BGB. The same applies to the direct and organized clearing processes treated in § 1,

- to the transfers (bank or post office giro transfers),
- check transactions,
- retrogressive transfers,
- the drawing, discounting and settlement of bills of exchange,
- the operation of clearing houses, which undertake in particular skontrations (the clearing) of bank transfers, retrogressive transfers, bills of exchange, cheques and other mutual obligations within a certain district.

This direct clearing accomplishes between 80 and 97 % of all payment processes in the modern so called developed states, while the small remainder falls upon settlements done through the physical embodiments specified above.

(J.Z.: a handwritten note of Rittershausen on a separate slip):

"Introd. Theory of the contingent claim (P. 10, 11) in conclusion on clearing.

Valut. character of set-off, already dealt with on P. 12."

(some separate handwritten notes of Rittershausen):

"new to insert: 9.6.51.

1. Insert here money as most liquid commodity. Any good a quantum of functional value = containing liquidity, money a maximum quantity.

2. Table according to degrees of liquidity. (J.Z.: already contained, on P ... ?)

3. Distinction of

- a. Precious metal money - combination of highest liquidity with many other goods characteristics
- b. redemption money - "assignment" upon it (deposit receipt).
- c. Fixed rate money - governmental-artificial good of highest liquidity, artificial goods!
- d. market rated (optional, refusible, discountable) money as a form of set-off, its kinds.
- e. other liquidity: stock exchange papers, their legal usability for Lombard credits.

4. No "antipode" of money and goods.

5. Hoarding and degrees of hoarding, security. Satisfaction of needs. Secure safekeeping.

6. Me: Teachings of the opposites (in reality pseudo problem: Veit page 269.) of nominalism and metalism to be fought (this Knapp Theor.), since there is no antagonism; money belongs thus among the kinds of goods, it is not excluded from them. With this we arrive at a uniform theory, not 2 of them! The price theory does govern money as well!

a. self worth and fixed rate money as liquidity maxims

b. set-off as neutral method of money saving = saving goods!!

c. market rated money subjected to price formation.

7. Money not only valuable by derivation, i.e. by the goods acquired with it, but directly, by its function as max. liquidity, as satisfaction of this genuine and most urgent need, + often max. security = satisfaction of security needs.

8. Money as a vehicle in front of the door: ready to be driven. Schopenhauer quotation Veit page 267.

9. Money most important substitute good!

10. Neutrality: Problem not in the sense that money quantity and goods quantity always equal! This equation does not exist.

11. New goods definition: Carrier of liquidity!

12. Gold = more international liquidity = extreme liquidity + security, therefore valuable, not because of its commodity character.

13. Also the Gold value - term "commodity money"? - artificial (Veit? page 270), as with fixed-rate money, through sociologically conditioned readiness of the peoples to accept it? + purchase (price) of the note-issuing banks (illegible: ff? - J.Z.). But international convention of acceptance

a. is an irreplaceable plus! Unshaken!

b. A further plus of gold: it satisfies security needs at the same time!

c. Further advantage: Veit page 271: of gold: Gold arises only through consumption renouncement (that took place before, "ex ante"), so that there is an equilibrium between money stream and goods stream (even Veit!). On the other hand, fixed rate money can disturb the equilibrium (ex-post-renunciation of consumption renouncement resulting from price increases). This is the only substantial difference.

14. Me: no, still more differences, since there is still redemption money, clearing ff., but Veit is right:

There is no diametric antagonism between money and goods.

(J.Z.: a further handwritten note, undated.):

"Me new part in § 2, end:

(J.Z.: in previous structure. Here current chapter 2, § 8, market rated money, seems to be meant.)

according to which the concept of money is not only extended to clearing, but to all goods, since money is fully and completely a commodity, merely one of high liquidity. Extend to: Liquidity as money!

All methods to make oneself or someone else more liquid are money or replace money, e.g. skontration (setting off, clearing, balancing) of debts (makes more liquid), clearing with prospect for future new clearing (lets me dispose of goods belonging to others), stock exchanges (transform their goods to daily money), etc.."

Chapter 3

§ 10. Two opposite theories of the State

(J.Z.: Original title: "Chapter 3: The relationship of money to the State, to the payment community and their individual members." - J.Z.)

We must disregard here from metal money; this is valuable in itself and of full value. It always existed and can exist without a primary relationship to the State. Even if its coinage is undertaken by government authorities, and may show a state's heraldic figure, such governmentally minted coins would, nevertheless, not be more valuable by this state influence or be judged otherwise than privately-minted coins of the same fineness. In principle, that applies also, when the State declares certain coins to be valutory, although here, a certain influence of the state cannot be ignored; one which will occupy us later. Thus, let us concentrate for now on the two other kinds of money, namely: 1.) the fixed rate money (compulsory value and acceptance or forced currency or legal tender type) and 2.) the market rate money. We do assert that the first does not only permit the shifting of a possible national budget deficit onto the shoulders of the citizens, but even more so, it is the regular and enforced means of passing on this debt; and this is precisely the motive of certain types of government for making extensive use of it in their economic policies. That abuse is impossible with self worth money and, especially, with market rate money, although this latter is, likewise, a paper money. These latter two kinds of money (the self-worth and the market-rated kind) are in the sphere of a constitutional state, because they do not allow the government to burden the citizens with its deficit. Therefore, in history, one finds self worth money and market rate money predominantly in the periods of constitutional states and limited monarchies, thus in Germany especially from 1816 to 1910, and fixed rate money in the periods of the total State and of those economic policies, which make extensive use of coercion, thus prior to 1815 and since 1914, and more so since 1931.

The two paper money forms distinguished by us: fixed rate money (forced currency, legal tender paper money) and the market rate money, do, lastly correspond to the two kinds of theories of the State (de Viti de Marco):

The theory of a monopolistic or "omnipotent" and that of a cooperative (associationist, societal) State. In the first theory (called case A in the following), the citizen, with all his wealth serves the State. Thus, ultimately, his property cannot be distinguished from government property. In the societal (or cooperative) theory (case B) government serves the citizen. It has no right to "seize" private property, it is the citizen's organizational instrument

in certain community questions, which are, by the way, accepted by both systems of government (1).

The decisive importance of the constitution of the State and of the economy for the monetary system becomes immediately clear when one examines the "state of emergency", not the "normal" or "ideal" course of events. Just like the state of emergency in public affairs has already proved, for a long time, to be crucial for the evaluation of the form of a State, so, likewise, in financial and currency affairs, it is not the normal balanced national budget, but the actual final deficit of the State's budget, which, in its own way, has an importance, not recognized so far, for the monetary economic constitution, if one may use this word – in our still unsettled terminology –. The value standard and the right to private property stand closely connected to the government's deficit. The monopolistic and the cooperative State agree in that, upon the occurrence of higher expenditures, they will at first increase their ordinary revenues, particularly taxes. This interference with private property is permitted in both systems. When tax sources are considered to be exhausted, then both State forms will resort to public credit. Only when this public credit is also exhausted, does the "true" deficit occur, which we mean.

Here the paths separate: An omnipotent government (2) converts its deficits and debt documents into money, by ordering its citizens to accept such securities as full payment, e.g. like precious metal coins, even if they are depreciated (mixed with base metal) below par value. By that method, the omnipotent government can achieve wealth transfers, as the numerous paper money crises have shown.

(1) See the contrast between Jefferson and Hamilton with the emergence of the American constitution. Among us e.g. the cooperative (societal) direction was represented by Althusius (*Politica Methodica Digesta* of Johannes Althusius [Althaus], reprinted etc., with an introduction by Professor Carl Joachim-Friedrich, Ph.D., Harvard Political Classics, volume II, Cambridge, USA, 1932, Fol. IXXXIV, XXXIX. The variety and greatness of the theories of the community-state of A., one without sovereignty cannot be fully described in one sentence). Some other representatives of that theory are: Frh. v. Stein, Hardenberg, Boyen, W. v. Humboldt, v. Gierke, G. Jellinek, among others, as is well-known.

(2) Here it is unimportant whether it establishes a governmental or a private central bank or not.

It can thus interfere with the private property of its citizens, largely unnoticed, and live on that. With invisible hands, it grabs income and wealth from its subjects. It does so by shifting the price relations through its increased demand for goods, there by extracting goods and thus worsening supply, because it does not increase the goods supply by adding any. Even the government cannot produce something from nothing. The result is thus the same: a taxation of its subjects. But this taxation is achieved in a different way. This other way is not by any means the better one, however, it is probably the easiest as well as the most unjust of all kinds of state interventions. Its power, whether it uses it for warfare-, control- or budget-purposes, has or recognizes no limit before private property. Such valutory notes with compulsory acceptance at nominal value are not credit papers. Their issuer is only by his name, not in the scientific sense, a credit institution. Their acceptors is not a credit provider. There is no credit "creation". This valutory paper money constitutes absolute values of a special kind, created by government command. By issuing it, the issuing centre does not contract a debt. For the omnipotent government has a power, which no private person ever has: It can transform debts into asset values, liabilities in activa (assets) (namely legal tender means of payment), not, as with the public loans into values for the loan provider, but for the State, so far a debtor. With this valutory money, it can make itself liquid, thus it can spend "money", when nobody is any longer prepared to lend anything to it, i.e., when the national credit is exhausted. (1)

These notions and ideas have long been well known didactic plays: among the theories of note-issuing banks as the theory of the "strong central bank" (2), and in the science of finance, e.g. with Lorenz von Stein (3) and De Viti de Marco (4), as the theory of the „real paper money”.

(1) Whether a bank is placed as an intermediary between the Treasury and the public or not is not a substantial question, but merely one of psychological tactics. Whether the procedure is dressed up as an "open market policy", which, nowadays means something completely different, is likewise without any importance. For all too long the scientific discussion dealt with superficial matters (open market policy, cover of bills of exchange), so that, finally and most importantly the question has to be put regarding the last and decisive phenomena and principles that are involved here.

(2) Compare Plenge, Riste, Sven Helander et al.

(3) Lorenz v. Stein, Lehrbuch der Finanzwissenschaft (textbook of the science of finance, part II, III rd section, Leipzig 1886.

(4) Grundlehren der Finanzwissenschaft (Basic theories of the science of finance.), 1932, chapter 31.

A cooperative (partnership) government (case B) does not possess this power. Its options possibilities on the credit markets do not exceed those of a private citizen. It does not have a "gold mine" under the cellars of its bank, as compulsory acceptance was called; it may not intervene with private property otherwise than by means of the tax legislation. It, too, can balance its budget, namely by tax increases, however severe they may have to be. It can make use of public credits; it can draw-in its deposits, it can even "anticipate" fiscal claims, those due, but not yet received (by state paper money with a market rate evaluation, the so-called "tax anticipation notes", and "treasury notes" in financial history). But when it issues too many of such securities, no matter whether these are bonds or paper money, then their market rate will fall and thus the issuance finally ends by "repudiation", by a severe discount (sharp rate decrease) and refusals to accept them and deliver goods for them. Already by its definition, it is barred from the means of monetary policy and the "tacit" interference with the property of the citizens. The sovereign community of "citizens", of "oath comrades" (confederates), "Federal States", of the "elite" or whatever influential people it might have, would exclude, by their constitution, the other forms of interferences and would wield their self-government power.

Although that certainly may mean much, one should not forget that even the authoritarian State cannot consume more than the incomes and properties of its subjects. Altogether, the one financing method cannot raise more or be stronger than the other. Instead, the budget balancing process is just more voluntary, public and honest in those forms of States that are at first thought to be weaker, for the tax legislation is public. A cooperative (societal or partnership) government, imagined to be weak, does avoid, together with the "monetary policy" every serious paper money crisis and every governmental "inflation". ("Private" inflations of any considerable extent do not exist in history. Practically all inflations were caused by government budget deficits.)

Under the statist monetary and financial despotism of case A the selection of the best kinds of money for circulation is thus not an economic question, which is e.g. decided by private judgments which kinds of money are deemed to be most practical,

but it is a political question, one of power and of the distribution of power in a State, and which is to be judged by the State's constitution and by the state's position about budget deficits.

To state it once again: If the State (case B) has to cope itself with its deficit, as in a constitutional system, then it has 3 options for this: The reduction of its expenditures, the increase of taxes and making use of government credit.

With the two latter measures it interferes with the incomes and wealth of its subjects, but does so in an open and legal way.

The omnipotent government (case A), however, has, apart from these two measures, still another means at its disposal, which can supply additional income to it: it can compulsorily convert the remaining deficit of the national budget into money, it can turn liabilities in assets, thus eliminating its deficit, seemingly without extra taxation and without disturbing its adherents by such visible burdens. This political moment plays a large role, because the seemingly omnipotent State is weak and anxious towards those who support it. Therefore, it does not wish to touch them with heavier taxation. By this thought construction "money" is "created", goods are extracted, prices are shifted; and all these are all exactly the same effects that a new tax or the increase of an old tax would cause. Merely the compression of demand from the side of the subjects is missing, that of the government replacing it. On the one hand, this small difference makes the characterized measure the most easy one, on the other hand, however, and, at the same time, it makes it the worst.

Between the constitutional (market rate-) and totalitarian (fixed rate money, forced currency) money system no mixed forms are possible, there is only an either-or choice. A commodity or a security document cannot have at the same time a price determined by government and a free price and cannot be traded, at the same time, at both different prices. When government does not enforce its decision, then traffic decides for only one form.

§ 11. Evaluation of the kinds of money from the point of view of the State

The interrelation between the two types of government and of money is, indeed, not simply that, for example, the omnipotent State is always and alone associated with fixed rate money and cooperative governments with market rate money. This is not possible already because according to the older (past) theory it seemed that the market rate money could only be an accessory one, an appendage to metallic money, a case that, probably, does not always fit the modern cooperative democratic States. G. F. Knapp did quite rightly point out that it is not at all permissible to simply lump all the different kinds of money together and to confront them, as an undifferentiated mass with the goods on the market. The State gave, by law, quite different characters to the particular kinds of money on their separate territories of earth's surface, and the task consists in studying them

As mentioned before, firstly we call that kind of money to be valutary, which government declares to be final (absolving or valid), when it has to make payments. Thus self worth money can be valutary, possibly, e.g. in the form of gold pieces. Also notes or other kinds of paper money can individually or together be valutary. All non-valutary kinds of money we call accessory ones. In Germany, from ... 1929 to ... 1931, gold coins and Reichsnote were both valutary in Germany. Until December 31st, 1909, only gold coins were. Since June 20th, 1948, only DM notes of the German Central Bank (Bank Deutscher Laender) are valutary. Until Dec. 31st, 1909), Reichsbanknotes, the notes of the four private issuing banks, the Reich treasury notes and the Reich coins made of silver, nickel and copper as well as the Thaler (since 1876), were accessory. Since January 1st, 1910, the number of accessory kinds of money was decreased by one, namely the Reichsbanknotes. Here, we will not discuss the inflation, which ended in 1923. Afterwards, the notes of the 4 private issuing banks (1937), the Rentenbank notes and the Reich coins made out of silver, nickel and copper were accessory. This condition remained until 1948. Since 1948, only the notes below 1 DM, as well as nickel and copper coins, given for change, are accessory. Book money (non-cash payments), since its introduction, was always accessory and still is

so today.

Thus, the gold standard will be found where cash (physical) gold money has a valutary position, and a paper value standard there, where cash paper money of a certain form, e.g. banknotes, are in a valutary position. In the case of gold money, the concept of valutary money does not absolutely depend upon the behavior of government, since gold money has an exceptional position because of the general and continuing demand for it, one caused by mass-psychology. For all kinds of non-full-value metal money and for paper money, however, the concept of valutary money does depend on the behavior (legislation and jurisdiction) of the State. However, here the cooperative State that is represented by the community of the citizens can limit its activity insofar as it only needs to formalize a customary law established by their continuous actions.

A completely different classification of the kinds of money results, if one examines whether there is compulsory acceptance, and thus, whether payments are final (debt dissolving), which are not made by the State to the citizens, that is e.g. in payments among private persons. Further to be dealt with is the case of payments to the State.

I. For payments among private persons, acceptance can be left completely to the discretion of the recipient: E.g. the optional acceptance for the Rentenbank-notes until

II. Or a definite but limited compulsory acceptance takes place;

1. This compulsion applies only to payments of small amounts, e.g. in copper coins up to the amount of DM 1.-, for those in silver coins up to the amount of M 20.-. This quantitative restriction for such payment results from the concept of "small change-money".

2. The compulsion is general and unlimited: All potential payees must accept this money: This is the concept of "Courantgeld" (Coin of the realm. Legal tender money. Forced currency. Fiat money.). Until 1910, pieces of gold were the only Courantgeld. Today notes of the German Central Bank (then Bank Deutscher

Länder, tr.) have this status. Both, the gold money of that time was and today's notes of the German Central Bank are, cash, Courantgeld and valutory money (legal tender or forced currency). Here, the concept of cash

has changed: Formerly the quality of "cash money" was conceded only to the then given full value metal coins. But following today's language use, the paper money notes of German Central Bank are also given that status.

A still a further classification differentiates between definite and provisional kinds of money. They are provisional, when they are redeemable for a definite kind of money, i.e. for such, which is regarded as final (debt dissolving) according to the legal order. Until August 3rd, 1914, the banknotes (since Jan. 1st, 1910) were valutary, but still redeemable. They were thus definite and provisional at the same time.

Finally, and again arranged according to a completely different criterion, there are kinds of money that are below par value (discounted, with a disagio), full value (at par with their nominal value), and above par value, (money with an agio): There are kinds of money, whose material realizes a lower price in its sale or exchange than its nominal value. They are monies standing below value; e.g. all kinds of paper money, further, all European silver money, likewise nickel and copper coins. As opposed to this, our gold coins had full value until at least Aug. 3rd, 1914: When selling them as commodities, one received as a price just as many value units as was their legal payment value. Monies standing above their par-value obtain a higher price in selling them as commodities than corresponds to their legal value. That is the case today e.g. with American 10 \$-coins, which earn today about 40 \$, if one sells them outside the borders of the United States, since within the U.S., such business is forbidden. One says about those kinds of money standing below value: They have a disagio (discount, tr.); about those of full value: They stand at par, their parity is 100; about those above value one says: They have an agio (premium, tr.). Inland, the last type disappears from circulation, because the holders can sell it, profitably, as material. Contrary to this, the below par-value kinds of money remain very easily and persistently in circulation. Thus officials regard them favorably, since the population cannot use them otherwise than for payment purposes.

Having so far distinguished between valutary and accessory kinds of money, the first were characterized by general compulsory acceptance for everyone and the latter by the lack of this general acceptance obligation. The general compulsory acceptance applies also to the issuer of valutary paper money. For to the extent that he issues it, he contracts claims towards himself, which his debtors can and have to use to pay their debts to him. The compulsion to general acceptance is thus really general. It refers especially also to all of the State's tax offices. However, accessory money is not, without exception, characterized by the absence of all compulsory acceptance: The issuer himself must accept his own money without limitations. This exception is called the cash rate ('cash price', 'cash quotation', the German "Kassenkurs"). All accessory money has thus at least a cash rate, either that of a bank counter, should a bank have issued it, or that of a treasury, should it have issued it. Only with regard to this cash rate is accessory money of some value at all, as we will see later. Money, which has neither general compulsory acceptance nor a cash rate, is no money at all, but worthless and will be accepted by nobody. Our later remarks will concern themselves with a still wider acceptance in circulation, by means of clearing or set-off. We will reserve such remarks and merely state that for this purpose the full acceptance rate (the "Kassenkurs" or 100 % cash rate - for the own notes and certificates) must exist in the first place.

Each of the following kinds of acceptance are all to be understood as acceptance at the nominal value, that is, acceptance at par: General compulsory acceptance of valutary money in payments by and to the government - and between private persons -, as well as the numerically limited compulsory acceptance of small change coins and the 100 % acceptance rate, as cash, by the issuer. But something that also occurs is the acceptance below par or above par. In the year 1948, for instance, and during the week of the realization of the currency reform execution, Reichsbanknotes were accepted at only 10 % in payment of D-mark obligations. During the currency reform, in the year 1924, 1,000,000,000,000 Marks were accepted as only one RM, thus very far below par: When official or private issuers deviate from the acceptance at par, then the entire trade follows this practice immediately. That applies also to the

acceptance above par: The auxiliary money of the German armed forces in the year 1943 was accepted with an agio (premium) of 900 %, thus with its tenfold nominal value, in order to make its circulation among the civilian population of the occupied areas more difficult. Whoever bought e.g. in a canteen of the armed forces cigarettes priced RM 1, just needed to pay a 10 Pfennig-piece. Thus it follows that not the nominal value is decisive, but always and only the acceptance value, whether this is the enforced general acceptance, the forced limited acceptance or the cash rate. The voluntary acceptance of accessory money follows immediately the acceptance rate, which the issuer actually uses.

§ 12. General legal tender (compulsory acceptance & forced value)

In history, gold coins were valutory and paper money was accessory. This condition alone was regarded as normal, and one endeavored to preserve it. Knapp describes that under such a gold standard, the bank, which issued the accessory paper money did receive from the government privileges and advantages, in practice almost always and gradually. It became cash keeper (deposit holder) of the State, manager of its gold reserve etc., so that such a bank could not easily refuse to assist the Treasury when the State had gotten into financial difficulties and wanted to exploit this rich bank as a source of credit for itself. Up to this moment, the accessory money of the bank had been redeemable. When the bank however, semi-forced, granted large credits to its "protector", the State, how, then, could "it henceforth redeem the notes? It is impossible" ... this is well understood even by the State. It decrees: The bank is relieved of its obligation to redeem ... (it) declares these notes to be valutory money; thus the notes receive a compulsory acceptance and rate in all payments among private people, too. "By this most remarkable procedure, which is usually only understood as a severe accident, for a cold-blooded observer the following is determined: Monetary transactions ... do not cease, although the valutory money has changed; it consists not at all

of metal any longer, but of paper ... The government has sunk into 'paper economy'." (Page 129, Knapp, Staatliche Theorie des Geldes [State Theory Of Money], 4. edition, 1923).

With all that, Knapp describes, without exception, the conditions of a constitutional State only. Within the framework of a valutory gold standard currency and a constitutional State the general compulsory acceptance of paper money is quite possible; however, it must be regarded as a disastrous phenomenon, as a state of emergency, as previously mentioned. In internal policies, too, the declaration of a state of emergency is possible, i.e. the temporary abrogation of the rights of citizens. Under both kinds of emergency conditions, the constitutional State is not yet completely eliminated; it has however become, partly, suspended. If one succeeds in eliminating this political or economic emergency condition, or both of them, then the defense of the constitutional State has succeeded. On the other hand, it is not permissible to declare that the political state of emergency or, economically, the declaration of general compulsory acceptance and forced value (legal tender) would be harmless and in conformity with a constitutional State or a free economy. According to the experience of the last few decades, made in dozens of countries, one rather has to recognize that not only the introduction of a civic or political state of emergency, but also the introduction of an economic state of emergency, is really the first step to a new State and economic constitution, which is nearly always followed by a second or third step. Meant is here the step of a fundamental elimination of parliament, so pleasant for a government, and, financially, the steps of continuous interferences with private property of the citizens, and the use of money for politico-economic purposes, especially in the business cycle and foreign trade policy.

While formerly gold was valutory and paper money was accessory, today paper money is generally valutory and gold accessory. Compulsory acceptance and forced value for paper money do dominate. The note-issuing bank is no longer in control, by means of the free market-rating of its paper money, for this is then no longer possible. It can engage not only in sound but in foul business as well. If it makes mistakes, or even when it practices criminal financial policies, then this is no longer recognizable

by increases of the general price level, which are presented to the public as natural phenomena. The platform has been provided upon which an omnipotent government can grow without restraint. Naturally, it does not have to grow. But it is important that here one has provided a fertile soil for it.

The disagreeable choice between the alternatives: gold standard with accessory paper money or valutory paper money with gold coins no longer of importance, because they are not in circulation, this unpleasant 'either-or' one often tried to change into an "this as well as that". E.g. in the German banking and minting act of 1924, German gold money and the Reichsbanknotes were both granted the valutory status at the same time. One has created gold core standards and foreign exchange gold standards. However, scientifically, all these creations are pure paper standard currencies. For, scientifically, the only question to be asked is: Which kind of money has valutory status? To be applied is Gresham's law.

This law first formulated by Gresham, Minister of Finance of Queen Elizabeth I, states, that bad money drives out good money. It is a law, whose modifications are applicable as far as in sociology, even in zoology, if one regards e.g. the displacement of song birds by sparrows in metropolitan gardens. But Gresham's law is wrongly expressed in this general form. For money it is valid only, if a governmentally prescribed rate exists between the two compared kinds of money. If a ratio is decreed of 15 g silver = 1 g gold, and if both, gold and silver, are given the valutory status, then silver will drive gold out of circulation, as soon as the silver price, denominated in gold units, becomes cheaper. Then it will be profitable to use the cheaper silver for payments, because then one receives an artificial, because governmentally prescribed, higher equivalent, than by selling the silver at its metal value. At the same time it will pay to withdraw gold coins from circulation, because their metallic value is then higher than their monetary value.

Thus, this law of Gresham is valid only in case of a fixed ratio of exchange rates, but not in cases of the free value development of both kinds of money. In this case, on the contrary, a displacement does not take place. Market rating excludes the application of Gresham's law. However, the fixed or forced rate at its merely nominal value does make Gresham's law applicable, if it constitutes a legal value relation to the rare metal coins: In the case of general compulsory acceptance, gold money disappears from circulation according to Gresham's law.

This disappearance is not accidental. Neither is it based on a government law. It rests upon an economic law, which, by now, imperatively demands its acknowledgment. For this reason and because of the validity of Gresham's law, all attempts are futile to concede valutory status at the same time to gold and paper. They are futile insofar as in the end merely a pure paper standard results. The gold core has nothing at all to do with the value standard, for that kind of value standard consists of paper. The fact that some gold reserve is collected in the cellars is economically insignificant. Also, compared with foreign trade turnovers, the gold core is usually insignificant, and mostly it is not used at all either.

The same applies to the foreign exchange reserve of a foreign exchange gold standard.

Probably, there is no need to prove that this pure paper value standard character of the gold core standard and of the foreign exchange gold standard etc. is not only known to but also desired by the creators of these "value standards". They do know exactly the traditional inclination of the large mass of the population towards gold as the most important security means for investments, but they desire the fraud, i.e. the elimination of this security device, while merely preserving a golden façade.

§ 13. General acceptance and general clearing

We had seen that valutory (legal tender) paper currency has not been made by a creative act of government wisdom, but rather by accident. This agrees exactly with experiences of the last decades. The excellent condition of accessory (optional, refusable, competitive, market-rated rare metal coin substitute) paper monies in the United States, culminating in notes of many free note-issuing banks competing with each other, had caused the fabulously fast economical and political rise of the United States. Almost no criticism was heard in the public. Then the Civil War broke out, which - because of its ferocity and extent - is regarded as the first modern war in the history of wars and the financial emergency of the state began. It was bound to its tax sources and its bond issues. Or, rather the financial privation of both states, the Northern and the Southern one, so to speak, which struggled with each other as two federations. The Northern government tried to induce the banks to grant huge credits. The banks resisted successfully. So the government imposed a tax of 10% on their note turnover - seemingly a measure in perfect accordance with the conditions of constitutional states, since it was a question of taxation.

No debtor could pay the interest rates now necessary, the private credit business came to an end. Unrestrained was the note circulation that was based upon credits for government. So the banks had to adjust. By the end of war they were over-burdened by credits to the State and thus almost mere holding companies for government bonds. The paper money did not consist any longer of accessory banknotes (optional, refusable, soundly market rated private banknotes) any longer, but of legal tender state-notes, "Greenbacks".

In 1931, it was similar with us: The Reichsbank had about 3 billion RM (750 million dollar) of gold and foreign exchange. It did not have any foreign debts. According to the law, their directors were liable to penalties if they gave other credits than those based upon good and safe commercial commodity bills. The status of this central bank was excellent, in total contrast to the status of the so called D-banks, which had taken up 6 billions of short term loans abroad and lent them to German industrial companies on a long-term basis. However, the remaining thousands of German banks and savings banks were completely healthy, nearly without exceptions. The "great bank crisis"

of 1931 befell the mentioned morbid institutes only. If one would have let them go bankrupt or allowed liquidation settlement, as German commercial law would have required, in agreement with the commercial law of all developed states, then enforcement (possibility of compulsory seizure of assets) would have been made possible and, by civil law, the subsequent moratorium for the foreign creditors (only large ones) would have been there immediate and easy. 95 % of the creditors, probably those with assets under RM 10,000 or 100,000, could have disposed of immediately, the others would have had to wait, because - well - because they had acted very carelessly and unwisely in business. The remaining, healthy banks, e.g. the Berliner Handelsgesellschaft (Berlin trading company), could have comfortably taken over their business. Life would have gone on without general forced acceptance (legal tender) and without foreign exchange controls; unemployment, until then largely a consequence of latent illiquidity, would have passed, even quickly, as it did after the large crises of 1857, 1907 etc.; and, probably, the gruesome subsequent events would have been avoided.

But what was done instead? General compulsory acceptance and forced value (legal tender) was declared. From then on the Reichsbank was now no longer confined to good businesses, it discounted 2 billions of worthless "kites" or accommodation bills or financial bills ("Kellerwechsel", "cellar bills") and gave for them, quite illegally, metallic gold worth 2 billion RM, with approval and assistance of the Reich's nearly debt free government. The Reichsbank ruined itself, quite uselessly and abandoned the German economy, whose central gold and foreign exchange reserve it had provided to leave it to illiquidity and to inability to export.

Here, too, the new valutory paper currency (newly issued and forced paper currency, legal tender currency) in combination with foreign exchange controls, was not created as a result of mature considerations of clear heads, not as a result of state wisdom, but as an act of coercion in days of despair. Not even for a moment were the consequences calmly considered, namely the creation of a fertile soil for omnipotent governments.

But, perhaps this was just a well organized coup of specially interested parties, who did not yet suspect, what the future government, prepared by them, would undertake against them.

While the "justification" for the new currency standard was only found afterwards and, one remained loyal to it, the explanation for this was the fact that one was not sufficiently prepared in monetary theory. Thus it was not possible to arouse in the public a clear conviction on what was missing

and what should be done. One was very strongly impressed by the alleged necessity for legal tender (general compulsory acceptance and forced value for government paper money) in order to simplify general payment transactions. The previous payment power regulations were declared to be imperfect. According to them, only gold coins were valutory (legal tender) and Reichsbank notes as well as later, after the 1914-1923 inflation, for a short time, the strongly circulating Rentenbank notes were purely accessory money.

However, this system had proven its worth, in quiet times; not even a single case of complaints had become known of, for instance, creditors trying to chicanerously enforce gold payments.

But the system did not seem to be able to cope with the great crisis and its run upon the gold redemption counters of the Reichsbank.

This had been predicted by criticism for many years but not in a thoroughly established way and, in that, it seems to have been proven quite correct.

Neither in science nor in public opinion was the significance and legal existence of clearing recognized and appreciated. Clearing causes general readiness to accept, like it is known for gold coins. It makes quite superfluous the establishment of a general compulsory acceptance of claims, that are, possibly, below par value.

Only one cover sheet, on which the title is written:

§ 14. The payment communities.

§ 14. The payment communities

Both types of government, according to which we classify the different kinds of paper money, are communities, although of a very distinct character.

It was Knapp who had created the fundamental concept of private payment communities. Thereby, he places himself in opposition to the possibility of money issue by a single person, as contemplated by Max Stirner. Such a possibility is not applicable for a powerless private citizen, because standards and money presuppose an agreement of single persons with others, thus community creation. However, a private banker with his customers can already be such a community.

If, however, we consider a single money issuer of extremely great and unlimited power, then and for this case we can reserve the image of the requisitioning receipt, provided by de Viti de Marco for the extreme case of forced and fixed rate money; which, indeed, played a role in practice, in times of political confusions and war.

In his investigation of the banknote, Knapp points out that banknotes are private cashier notes, usable only among the customers of a certain bank.

"These customers and the bank form a private payment community, so to say; while the public payment community is the state ... Banknotes are, so to speak, the money of private communities".

According to Knapp, they are not part of the State's money. He especially thinks about the example of the 1619 clearing bank of Hamburg merchants, established according to Chinese models that had the purpose to mediate the settlement of mutual payments.

"Each participant in this institute was member of a private payment community. Each member supplied a certain quantity of silver; seen legally, it was a delivery of ingots, although, technically seen, the supplied silver consisted of coins. Because the institute did not take coins according to Chartal law, i.e. according to their nominal value, like paper money printed on silver-sheet-metal but only as pieces of well-known fineness and of their real weight. The institute stored the supplied silver physically, without using it for any business, and returned it

only if the member required it - however it returned them only as long as the deliverer had not yet disposed of it. Its handing-in

(J.Z.: here the typed and hand-corrected 5th draft ends which I possess, incompletely, in photocopies. Obviously at least one further page is missing. At present, I will not try to fill in the still omitted or incomplete quotes from texts available to me. Others, too, could do that more or less easily themselves. J.Z., 28.02.05.)